STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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SHARES

WE MAKE INVESTING EASIER

SHELTER FROM THE STORM

8 FUNDS WITH REASSURING QUALITIES

PLUS

MARKS & SPENCER IN DANGER OF **LOSING** FTSE 100 PLACE

FOREIGN BUYERS CONTINUE TO CASH IN ON **CHEAP POUND** TO GRAB PRIZED ASSETS

PART 3 OF OUR FTSE 350 SERIES: THE STOCKS MAKING OUR LIVES BETTER

Are the good times over for markets this year?

Following decent returns so far in 2019 it might be worth thinking about tidying up your portfolio

Just how bad are the markets at the moment? While there are many negative headlines around weak economic growth, recession fears and volatile stock markets, equity performance figures have been far from disastrous.

The FTSE All-Share is up 7.1% so far this year – in line with historical annual returns from the stock market – and even higher gains have been recorded in the US (S&P 500 +16.6%, Nasdaq +20.4%), Germany (Dax +11.5%) and China (CSI 300 +26%).

Investors should be happy with these sorts of returns. So why the gloomy talk about the state of the markets? The key point is that there are dark clouds on the horizon and investors need to be aware that life could get a lot more difficult.

Time in the market is generally considered to be better than trying to time the market such as selling everything and hiding in cash when the outlook sours.

Markets can rebound faster than you think so it can pay to stay invested at all times so you don't miss out when things pick up.

We've expanded on the theme in this week's main feature which looks at a range of investment funds and how they've coped in previous market downturns, with a view to providing investment ideas for someone looking to reduce risk in their portfolio.

CHINA	CSI 300	26.0%
US	S&P 500	16.6%
GERMANY	DAX	11.5%
UK	FTSE All-Share	7.1%
JAPAN	NIKKEI 225	3.1%

Source: SharePad, Data to 23 Aug 2019

In the article we select eight funds which appeal on different levels. Many are designed to protect your capital and so they could be good products to consider if you are nervous about where markets are headed.

While there is no guarantee that they will stop you losing money, their approach could help you avoid very nasty falls in the value of your portfolio, albeit you may lag a new market rally.

If you prefer to invest purely in individual stocks then now would be an ideal time to review your portfolio. We spotted a comment from a private investor on Twitter on this theme which said they would stay in the market and simply sell stocks in their portfolio which might not survive a downturn.

On one hand this is a sensible approach, on the other hand it raises the question why someone is holding stocks that have vulnerabilities. The answer is that many investors like to 'rent' certain stocks short-term and 'own' others long-term. They accept higher risks for 'rented' stocks in the hope of making higher returns.

An example of a vulnerability includes a company with high levels of debt and fixed costs whereby a small drop in sales could result in a much larger drop in profit, thereby putting pressure on the ability to meet debt repayments.

Balance sheet strength is incredibly important when markets go through a bad patch.

Other types of stocks which look vulnerable in a market downturn include 'story stocks' where there is a lot of promise about earnings potential but no actual profit. Forget about spring cleaning – now is the time for the end-of-summer clear-out in your portfolio.

By **Daniel Coatsworth** Editor

Economy on red alert with yield curve close to inversion

ADVERTORIAL

Schroders

With yield curves close to inverting in the US and UK, Keith Wade, Chief Economist, explains the implications for the economy. Both the US and UK yield curves are on the verge of inverting. The yield curve has been a reliable predictor of US recessions over the last four decades, less so in the UK. With only one exception, each time the yield curve has inverted, the US economy has entered a downturn within 18 months.

Keith Wade

What is the yield curve?

The yield curve is the difference between the interest rate on a longer-dated bond (debt issued by a corporation or country) and a shorter-dated bond.

For instance, typically it should cost less to borrow money for two years than for 10 years. This is because the economy is expected to grow over time and experience inflation. A healthy yield curve should therefore slope upwards.

What happens when it doesn't?

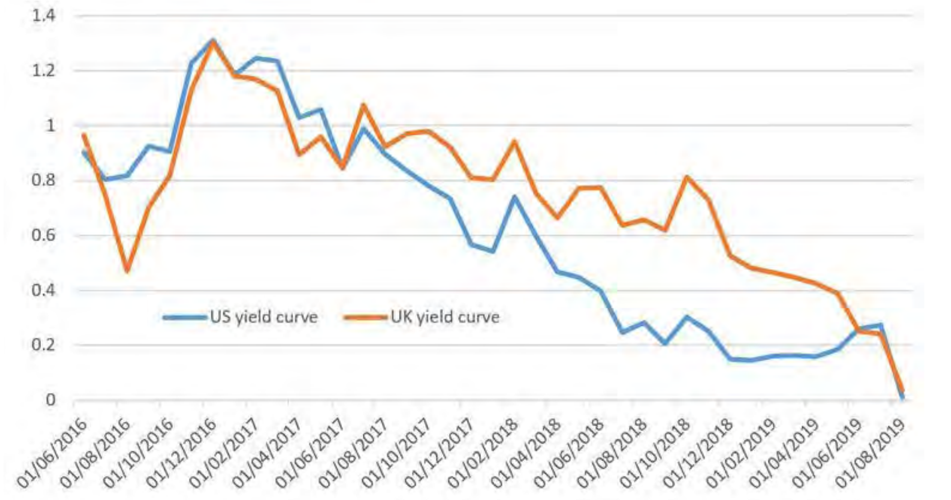
When it costs more to borrow money in the short term than it does in the long term, the yield curve inverts or slopes downwards.

At best, an inversion suggests that investors expect the economy to slow, at worst it signals a recession could be on the way.

Why does the yield curve matter?

Keith Wade, Chief Economist said: "The curve is moving around at the moment, but we are close to if not inverted in both the US and UK.

"The US curve is a reliable indicator of recession, the UK curve less so.



Source: Schroders. Refinitiv data for the US and UK 2 and 10 year bond yields correct as at 14 August 2019. Past performance is no guarantee of future returns.

"Nonetheless, if the US goes into recession it is hard for others not to go the same way given its importance as a driver of the world economy. So the double signal is important.

"There is normally a lag of about one year from inversion to recession so the curves are signalling problems for 2020.

"That said the UK has enough troubles in the near term having already experienced one quarter of contraction in the economy in Q2 2019 and facing the prospect of a hard Brexit in Q4 2019.

"The yield curve is saying that any post-Brexit bounce in growth is likely to be short lived in the UK – food for thought for the government's general election strategy and the Bank of England which continues to hint at raising rates."

The chart above shows the difference between 2 and 10 year government bond yields in the US and UK which creates the yield curve. The figures shown are as at the end of the day. The UK yield curve inverted during the day on 14 August 2019.

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CFA UK Publication of the Year
CFA UK Journalism Awards 2019

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PUTTING FUNDAMENTALS FIRST

Lucy Isles, joint-manager of the High Yield Bond Fund, explains how the fund's genesis has resulted in a forward-looking research approach our genesis has resulted in a forward-looking research approach, focusing on fundamentals first. The focus on fundamentals before valuation allows us to achieve the right balance of risk and reward and helps us to avoid costly mistakes. Our approach to high yield has been born out of our roots as a long-term equity house, which is unique within the market.

The value of an investment in the fund, and any income from it, can fall as well as rise and investors may not get back the amount invested.

We seek to identify a diverse range of under-appreciated resilient businesses that will adapt to our changing world. We define resilience as comprising three factors – a durable competitive position, good governance and a sustainable approach (synonymous with Environmental, Social & Governance) and an appropriate capital structure. Resilience, however, is not static, so we have developed rigorous monitoring tools to inform position sizing and our sell discipline. We think about risk differently, taking active positions in companies who face very different risk profiles. Knowing our holdings well is our first risk control, diversity is our second. We currently lend to 73 issuers from 15 countries in 18 sectors.

The combination of all these factors allows us to invest for the long term, with a three to five-year investment horizon, resulting in low turnover – a further differentiating characteristic of the fund. We allow time for fundamentals to assert themselves over fluctuating market sentiment and avoid unnecessary trading in what is a costly asset class. In doing so, we believe our investments are better placed to capture the opportunities of today and the future, to deliver long-term income, not short-term yield.

The result is top quartile performance in all timeframes, one, three, five and ten-year and since inception, 18 years ago. We deliver this outperformance by investing in bonds we consider to be resilient and then rigorously monitoring our holdings. This allows us to determine how the businesses are responding to our capricious world, and whether the initially identified resilience remains or we need to consider selling the bonds. We have delivered this top quartile performance with an 18-year track record for some of the lowest, if not the most competitively priced fees in the industry, with total charges for the fund of 0.37 per cent, with no entry or exit fee.

In doing so, we believe we remain true to Baillie Gifford's principal goals - to add value to clients, support companies and benefit society through thoughtful long-term investment.

ANNUAL PAST PERFORMANCE TO 30 JUNE EACH YEAR (%)

	2015	2016	2017	2018	2019
Baillie Gifford High Yield Bond Fund (B Inc Shares)	-0.7	0.9	12.6	1.7	6.7
Investment Association Sterling High Yield TR	-0.7	0.7	10.4	1.0	5.1

Past performance is not a guide to future returns

Source: FE. Single pricing basis, total returns. Sterling.
The manager believes this is an appropriate comparison for this fund given the investment policy of the fund and the approach taken by the manager when investing.

Marks & Spencer in danger of losing FTSE 100 place

Russian gold miner Polymetal could take its place in the blue chip index

Next week we will know which stocks are joining the FTSE 100 index of leading UK companies on 23 September and which have been relegated to the FTSE 250 in the latest reshuffle of the main UK indices. For one firm in particular, the stakes have never been greater.

This time round the leading candidates to join the FTSE 100 are Russian precious metal miner **Polymetal (POLY)**, which was 76th in terms of market value as at 27 August, and **Hikma Pharmaceuticals (HIK)** which was in 85th position.

There is also a good chance that defence contractor **Meggitt (MGGT)** could be promoted given it was 90th in terms of market value.

Companies fall out of the FTSE 100 if they are no longer one of the UK's 110 largest listed groups, or promoted from the FTSE 250 if they score within the top 90 when the markets close on a certain date every quarter.

The stocks at most risk of falling out of the FTSE 100 this time are utility group **Centrica (CNA)**, insurer **Direct Line (DLG)** and retailer **Marks & Spencer (MKS)**.

Shares in Centrica, which was in 105th position in terms of market value at the time of writing, are trading at 20-year lows after it slashed its dividend by 60% as profits plummeted due to the Government's price cap on energy firms.

Chief executive Iain Conn fell on his sword and the company announced its intentions to exit oil and gas interests, but the shares have yet to recover.

Direct Line, in 102nd position in terms of market value, saw its shares drop to almost a five-year low last week as profits fell on a combination of higher costs and a change in the calculation of personal injury payments.

For Marks & Spencer, currently in 110th position, demotion from the FTSE 100 would be the final insult after 35 years in the blue-chip index.

Marks & Spencer shares have been on a rollercoaster ride over the past 25 years but long-term investors won't have flourished

Despite a strong reputation as a food retailer, failure to connect with its customers in clothing and to develop a coherent online offering to counter falling footfall have seen its shares crash to 10-year lows this month.

In a recent YouGov consumer survey, even supermarket clothing brands George (Asda), Tu (**Sainsbury (SBRY)**) and F&F (**Tesco (TSCO)**) scored more highly than M&S's upmarket Per Una range.

The next FTSE reshuffle will be based on 3 September's closing prices and changes will be announced after the market close on 4 September.

Foreign buyers cash in on cheap pound to grab assets

We explore the key attractions behind the latest takeover offers

It seems as though barely a week goes by without at least one UK-listed company being taken over. The fall in the value of the pound is one factor, but buyers are also focusing on unique brands, franchises and physical assets.

Last week **Entertainment One (ETO)** received a £3.3bn takeover bid from US toy maker Hasbro. The target has stakes in unique, family-oriented brands such as Peppa Pig and PJ Masks which are hugely successful as far afield as the US and China.

The popularity of streaming means that video-on-demand platforms are gobbling up prime content as quickly as the producers can make it. Add in Hasbro's potential to make and sell toys on an industrial scale and the long-term value of the brands could be many times the purchase price.

Just a few days earlier, **Greene King (GNK)** received a £2.7bn offer from Hong Kong-based CKA, which calls itself a 'long-term and strategic investor in stable, profitable and cash-flow generating businesses that benefit from real estate backing.'

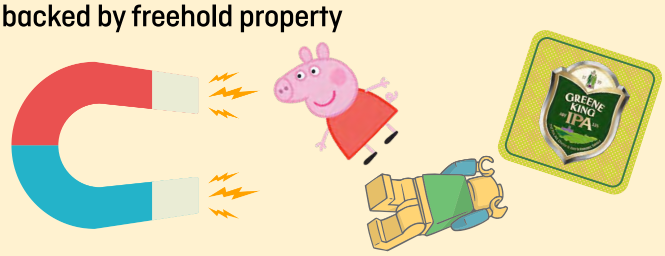
As well as making the fairly safe assumption that 'pubs will continue to be an important part of British culture', it actually specified Greene King's freehold and long leasehold backed property estate as a main attraction. In other words, CKA is as interested – if not more so – in the assets as the business itself.

KEY ATTRACTIONS OF RECENT TAKEOVER OFFERS

Entertainment One – strong brands that can be used for media content and merchandise

Greene King – cash generating assets backed by freehold property

Merlin Entertainments – cash generating assets backed by freehold property



Source: Shares

Last month, **EI Group (EIG)** received a £1.3bn offer from Stonegate Pub Co, backed by private equity firm TDR Capital. While TDR is based in the UK, it's no less red in tooth and claw than any other private equity firm.

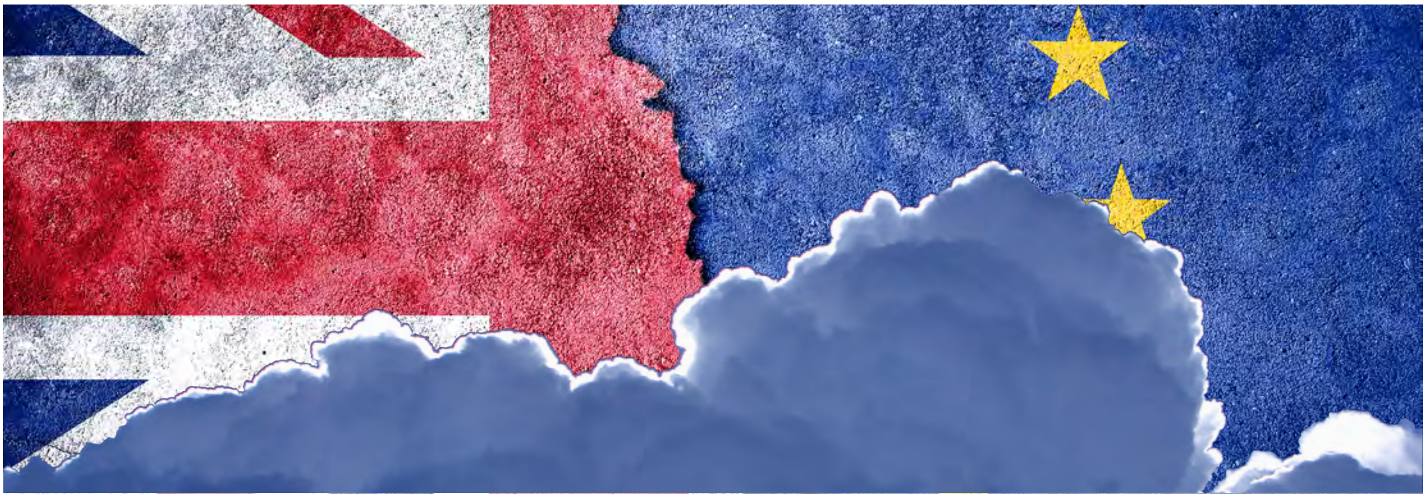
It describes its strategy as investing in companies that offer 'significant opportunities to de-risk the investment quickly', for example by buying companies with significant asset backing, long-term visible cash flow streams or tangible assets which it can monetise easily.

Likewise the £4.8bn bid for **Merlin Entertainments (MERL)** from Kirkbi, the Danish family office which owns Lego, was largely based on the underlying value of its theme park assets and a desire to maintain control over the Lego brand.

By coincidence, Merlin has an agreement with Entertainment One to open 50 Peppa Pig theme parks and opened its first Peppa Pig World of Play in the US earlier this year.

Brexit clouds have a silver lining, says Cable

Fund manager says UK smaller company valuations are 'artificially depressed'



Truly long-term investors with a 10-year time horizon should see issues such as Brexit as opportunities, according to Matt Cable, manager of the **Jupiter UK Smaller Companies Fund (B3LRRF4)**.

Valuations for many UK smaller companies are 'artificially depressed', he says, meaning Brexit clouds do have a silver lining for stock pickers seeking to buy quality companies at attractive prices.

Cable points out that since 1955 the Numis Smaller Companies Index has outperformed the FTSE All-Share by 3.3% per year and is also the only open-ended UK equity sector to beat the All-Share since the Brexit referendum.

Investors are currently giving the UK smaller companies sector a frostier reception than its large cap peers, says Cable, but he thinks this is a mistake because the UK small cap space 'should be considered a truly long-term asset class' and short-term volatility should be expected.

'While the knee jerk reaction to macro shocks such as Brexit, trade wars and other such headline-stealing geopolitical issues may be to sell, in my view this short-term volatility should be embraced.'

Macro noise is also creating valuation anomalies and means 'many solid, quality companies are undervalued when viewed through a long-term lens' according to Cable. He looks for undervalued companies that can demonstrate positive fundamentals, and where he can pinpoint the reason why the stock is mispriced.

His fund's holdings include recruiter **SThree (STHR)**, trading at its lowest price-to-earnings ratio valuation for more than 10 years due to concerns around Brexit and global growth generally.

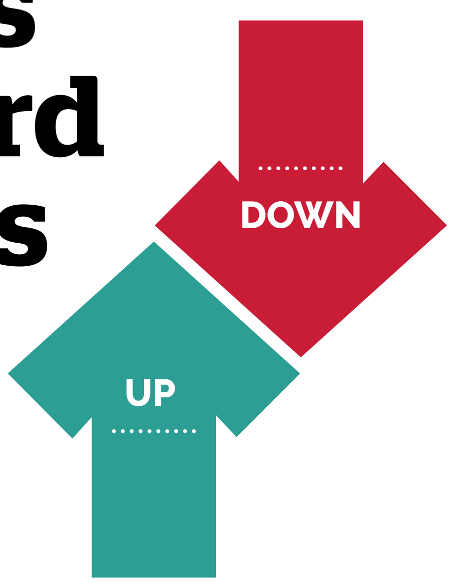
Cable believes SThree is incorrectly perceived to be more domestic than it really is, at just 15% of revenue. 'The market may also be ignoring fundamental characteristics of the business that should make it more resilient than some peers; notably its emphasis on contract rather than permanent recruitment and its focus on structurally growing niches in science, technology, engineering and mathematics disciplines,' he adds.

The fund also has an investment in ticketing technology firm **Accesso Technology (ACSO:AIM)**, which traded on a high rating until last summer.

'A new CEO realised they needed to invest more to get the platform ready for the next phase of growth but this meant lower short-term profits which spooked the market and led to a dramatic crash in the share price,' explains Cable.

He added the stock to the fund in July and it has subsequently receive a number of approaches, prompting the company to put itself up for sale.

NMC Health, Sirius Minerals, Woodford and other big news



We look at the top risers and fallers from the past week

Shares in healthcare provider **NMC Health (NMC)** rocketed on reports that two groups, one backed by China's Fosun, were competing to buy a 40% stake in the company at a premium to the market price.

The company's shares soared as much as 42% to £27.48 on news of the possible deal, having traded at a 12-month low just the day before.

Meanwhile a lifeline could be provided to ailing FTSE 250 potash miner **Sirius Minerals (SXX)** and its 85,000 private investors, with the UK Government being urged to provide emergency financial support, according to the *Mail on Sunday*.

Sirius pulled a $500m bond offer earlier this month, blaming market conditions. It needs that cash to get the $2.5bn being put up by JP Morgan.

Shares in the embattled **Woodford Patient Capital (WPCT)** plunged even further to just 40p after it revealed the value of its assets dropped by 3.6%.

Driving the overall cut was the downward revision of its holding in Industrial Heat. Aiming to develop cold fusion, investors including Neil Woodford and celebrities like Brad Pitt have poured over $100m into it. But it has been a terrible performer in Woodford's portfolio, and is currently no closer to developing cold fusion.

Infrastructure investor **John Laing (JLG)** fell nearly 9% over the past week following a large drop in earnings and news that it was putting new investment in renewable energy on hold in Australia and Europe.

Returns from wind assets in Europe disappointed, leading to a £55m hit on the value of the projects in that region. It also took a £66m write-down on its Australian renewable energy assets primarily because of industry transmission issues.

FTSE 350 MOVERS OVER THE PAST WEEK

BEST PERFORMERS		
STOCK	**SHARE PRICE RISE**	**REASON**
Entertainment One	43.2%	Takeover approach from Hasbro
NMC Health	20.5%	Rumours of two parties competing to buy stake in the business
Sirius Minerals	15.8%	Hopes that it will get financial support

WORST PERFORMERS		
STOCK	**SHARE PRICE FALL**	**REASON**
Wood Group	-9.0%	Messy financial results
John Laing	-8.4%	Write-downs on renewable energy assets
Playtech	-6.8%	Reports large drop in earnings, halves dividend

Source: Shares, SharePad. Data as of 27 August 2019

Temple could outperform if markets turn sour

The investment trust has a superb long-term track record of generating shareholder value

Investors seeking a portfolio of cheap, dividend-paying stocks and selling on a 6.3% discount to net asset value (NAV) should look to **Temple Bar Investment Trust (TMPL)**.

This fund has a lot of attractions but isn't suited to someone who is impatient and wants to see immediate gains.

Value investing is currently out of fashion so anyone buy Temple Bar needs to understand that its shares are unlikely to race ahead near-term. However, we still think it is worth owning as it could fare better than other funds during periods of market sell-offs, as the undemanding valuations in the underlying portfolio offer a margin of safety.

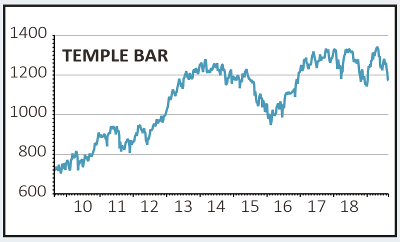
In a market sell-off, stocks trading on very high valuations will likely be punished as the market is no longer prepared to pay such high multiples of earnings. In contrast, stocks in Temple Bar's portfolio are already trading on lower multiples.

Managed by Alastair Mundy, Temple Bar seeks to provide investors with growth in income and capital to achieve a long-term total return greater than the benchmark FTSE All-Share index. The bulk of the domestically-skewed portfolio is invested in the FTSE 350.

Mundy scours the market for unloved, misunderstood or forgotten stocks – separating the 'dogs from the delightful'. Undertaking deep fundamental analysis, he invests early in recovery situations and holds for long periods. He uses enterprise value rather than market value as a metric to ensure his analysis allows for debt and pension deficits.

TEMPLE BAR INVESTMENT TRUST ↗ BUY
(TMPL) £11.70
Stop loss: 936p

Market value: £782m



During the first half of 2019, Temple Bar's total return slightly underperformed that of the All-Share, Mundy's value style remaining out of fashion. However the trust has outperformed the benchmark on a decade-long view.

Temple Bar is also one of The Association of Investment Companies' 'Dividend Heroes', trusts that have increased annual dividends for 20 consecutive years or more.

For 2018, the quarterly dividend-paying fund increased the shareholder reward by 10% to 46.72p. This marked the 35th consecutive year of growth, despite some years of low payout growth from the underlying portfolio, notably in 2000 and 2009 when many companies actually reduced their dividends.

Portfolio holdings now include pharmaceutical giant **GlaxoSmithKline (GSK)** and oil major **Royal Dutch Shell (RDSB)**. Temple Bar also offers exposure to **Lloyds (LLOY)** and dividend resumption story **Royal Bank of Scotland (RBS)**. 'We just want them to be dull and boring,' says Mundy of the banks.

Other positions include **Tesco (TSCO)**, fashion brand **Superdry (SDRY)**, builders' merchant **Travis Perkins (TPK)** and support services group **Capita (CPI)**.

Temple Bar also holds physical gold and silver for portfolio diversification and an inflation hedge.

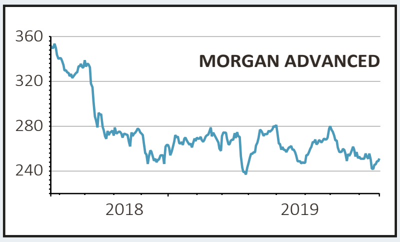
By **James Crux**
Funds and Investment Trusts Editor

Morgan Advanced Materials' recovery is gaining traction

Discounted shares do not reflect technical skill turnaround potential

MORGAN ADVANCED MATERIALS BUY
(MGAM) 246.2p
Stop loss: 197p

Market value: £704m



Manufacturers need new, smart materials to create more advanced products. From more efficient solar panels to increasingly complex microchips, cleaner transport to medical diagnostic equipment, materials engineer **Morgan Advanced Materials (MGAM)** is right at the bleeding edge.

Its roots go back to 1856 where it developed advanced melting pots, or crucibles, used in the metal smelting industry, a market where it still supplies industry leading products and technology.

But it has branched out over the decades making largely unique, high performance ceramic and carbon based products used in healthcare, electronics, oil and gas and more.

The FTSE 250 constituent is emerging from several years of patchy performance that has left the stock trading on a deeply discounted rating. It is now trades on less than 10 times 2020's forecast earnings with a 4.7% dividend yield more than twice-covered by earnings.

The recovery plan has involved largely self-help measures, such as simplifying the business, stripping out excess cost, streamlining the product portfolio and improving organic growth through better sales processes. This has helped Morgan continue to improve return on capital employed, hitting 17.7% last year, according to Berenberg calculations.

Morgan has also spent the past few years investing heavily in research and development (R&D) which has dragged on profit margins. We believe the benefits are about to start coming through thanks to sales of higher margin proprietary products and a greater focus on those end markets where technical demands are high and solutions need to be increasingly sophisticated.

Its hyper insulating Superwool is a good example, used in power generation, fire protection and even by academics in subatomic experiments.

Analysts believe that even in the face of wider economic challenges Morgan is capable of driving profit margins to new records thanks to productivity improvements, past R&D investment and new product launches.

In the first half of 2019 operating profit margins hit 12.8%, after stripping out amortisation, a 70 basis point improvement. Berenberg estimates this trending up to a record 13.2% by 2021.

A robust balance sheet means Morgan Advanced Materials has the firepower to make bolt-on acquisitions to bolster growth further. Dividends should also start to grow meaningfully again.

The company could be vulnerable to a meaningful cyclical downturn in major industries and economies, although this already looks discounted in the current share price.

But this is also just the sort of technical skills-based business that could be targeted for takeover by a cash-rich overseas buyer using the weak pound to cherry pick great British assets.

By **Steven Frazer**
News Editor

ENTERTAINMENT ONE
(ETO) 588.5p

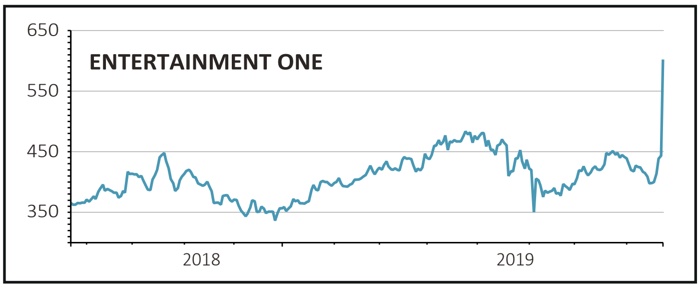
Gain to date: 40.7%
Original entry point:
Buy at 418.2p, 18 Jul 2019

OUR POSITIVE CALL on TV and film rights business **Entertainment One (ETO)** is looking well timed as the company has received a 560p cash per share bid from US toy maker Hasbro.

As we write the shares are trading above this level, suggesting that the market is expecting a rival bid. This latest takeover offer for a UK firm suggests that recent weakness in sterling has acted as a catalyst for foreign predators.

We pointed out that the company's *Peppa Pig* brand was the jewel in Entertainment One's crown and it seems likely that this, along with other successful kids' brands like *PJ Masks*, was what attracted Hasbro's interest. Indeed the US firm suggests as much, flagging the pre-school brands in its rationale for the deal.

The identity of any potential rival bidder is up for debate with streaming giants Amazon and Netflix logical candidates given their need for the kind of premium content owned by Entertainment One. Disney, which is a part-owner of *PJ Masks*, is another possible suitor.



SHARES SAYS:
While we normally like to lock in a profit upon a takeover approach, we're minded to wait with Entertainment One and see if a better offer comes along. Shareholders should sit tight.

NETWORK INTERNATIONAL
(NETW) 597p

Gain to date: 7.8%
Original entry point:
Buy at 554p, 6 June 2019

OUR BUY CALL on Middle East and Africa digital payments play **Network International (NETW)** is off to a steady start despite the recent market volatility.

The resilient share price performance was supported by the release of the first set of numbers since the company's IPO in April. The first half results (14 Aug) contained relatively few surprises.

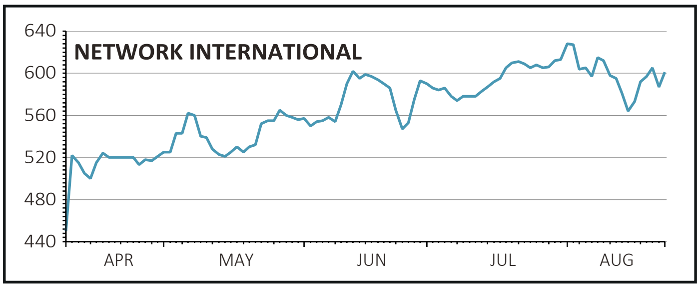
Pre-tax profit for the six months to 30 June fell to \$18.9m, down from \$38.6m but this mainly reflected costs associated with the stock market listing.

Revenue rose 12% to \$152.3m, underlying earnings before interest, tax, depreciation or amortisation (EBITDA) rose 14% to \$76.4m and underlying net income rose 5.1% to \$43.8m.

The company also flagged operational progress in Saudi Arabia, which was one of the key growth avenues we flagged in our original article.

Responding to decent momentum in client wins in the country, Network has opted to incorporate a local company, establish a local office and look at potentially investing in further infrastructure, including a data centre.

Investment bank Liberum says: 'We continue to believe that Network is uniquely placed to benefit from a number of structural growth drivers, providing the group with a number of options to create significant value for shareholders.'



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This is a story with long-term growth potential. Keep buying.

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Is a shorter trading day right for UK shares?

Proposals would clip an hour off the start and end of London share dealing

Fund managers, banks and City lobby organisations are understood to be working on ground breaking proposals that could cut stock market trading hours in the UK and across Europe, opening an hour later at 9am and closing an hour earlier at 3.30pm.

The talks, which are reportedly at a very early stage, are aimed at helping investment industry workers improve their work/life balance and encourage the recruitment and retention of female staff.

'Compressed market opening times is an issue we are discussing with our members,' says Simon Lewis, the boss of bank lobby group the

> GREATER FLEXIBILITY CAN BE ACHIEVED MORE EASILY, HAYNES BELIEVES, BY USING 'TECHNOLOGY AS A SOLUTION, ALLOWING PEOPLE TO TRADE WHEN THEY WANT

Association for Financial Markets in Europe (AFME), in a *Telegraph* article.

'Work is at an early stage but we are supportive, in principle, of proposals that would encourage more flexible working practices in the European equities trading market and that could help to promote increased diversity in the sector.' April Day, head of equities at AFME, says in *Financial News*: 'There are lots of industries trying to make the working day more flexible. Why shouldn't we be talking about it here in financial services and particularly in trading?'

The UK's Investment Association, which represents the country's £7.7trn asset management industry, is also understood to be planning to consult its members on shortening European stock market trading hours.

WRONG TOOLS FOR THE JOB

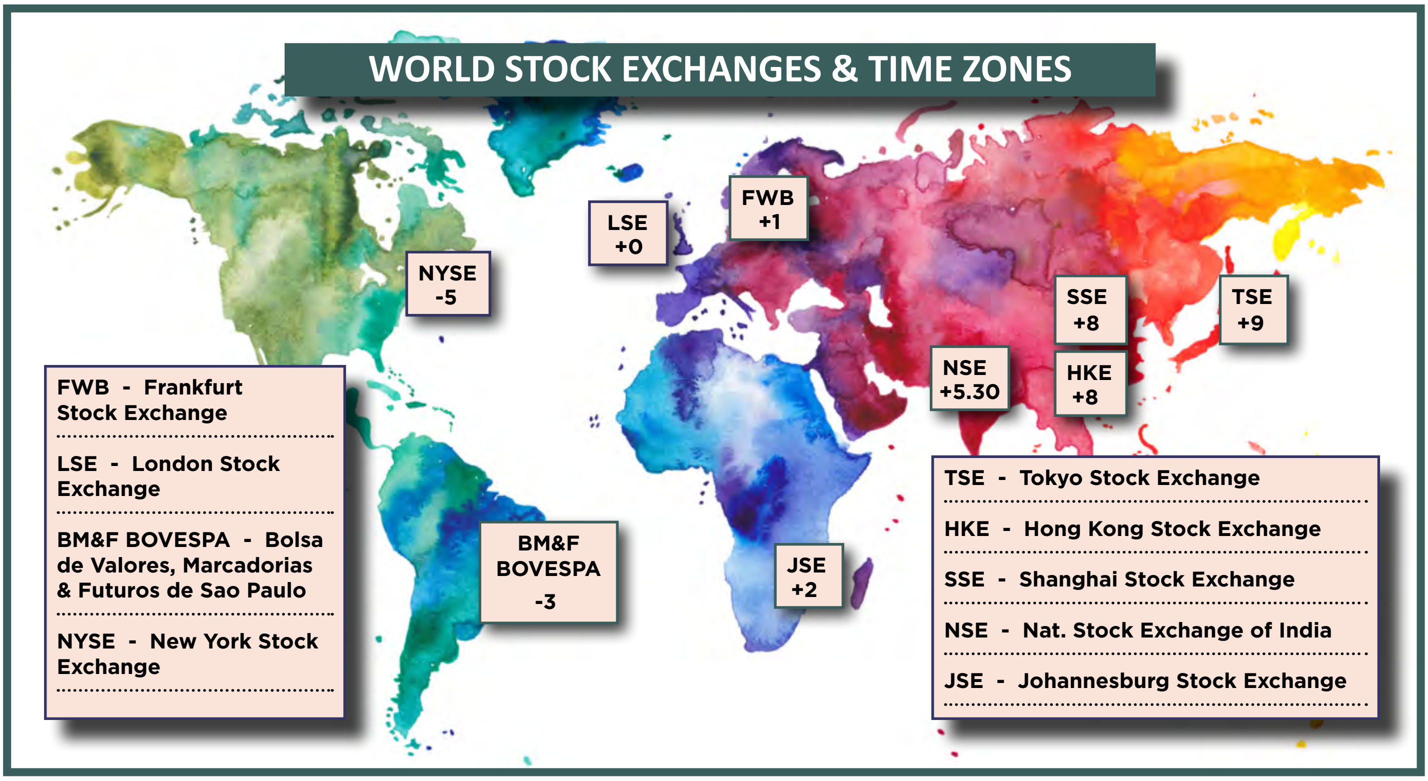
Encouraging greater gender diversity and improving the working life of staff are both noble ambitions, but whether shortening the trading day is the way to achieve them is open to question.

Alasdair Haynes, chief executive of pan-European exchange platform **Aquis Exchange (AQX:AIM)**, doesn't believe shortening the trading would make much difference in attracting woman into the industry.

Instead, he says any changes made to share trading processes should be aimed at improving liquidity in markets.

Haynes finds it odd that the share dealing industry is looking to reduce access to investment markets when almost every other industry is trying to make it easier and more convenient for their customers.

Historically, the reason why markets are only open for a fixed period was to promote liquidity and efficiency of the markets. Since markets are driven by knowledge and prices that are part of the flow of information, it made sense for there to be a focused period that drew most investors together so that knowledge could be disseminated effectively and efficiently.



Source: www.worldtimezone.com

The UK stock market is currently open for share dealing from 8am to 4:30pm, Monday to Friday on the London Stock Exchange, with European markets matching those operating hours, albeit an hour ahead because of the time zone difference.

CENTRE OF SHARE TRADING UNIVERSE

One of London's advantages historically has been its central spot in Greenwich Mean Time. Haynes believes evidence that cutting two hours off the trading day would be a regressive step is in the share trading volumes, which typically peak at the start of the day, and towards the end, tallying with the closing of Far East markets, and the opening of Wall Street.

But in the 21st Century digital age where information flows continuously 24/7, it is arguable that fixed trading hours are fit for purpose.

Prices move continuously as news emerges where market makers will adjust buying and selling prices before the market opens to reflect new events.

Rather than truncate the trading day, as is being talked about, Haynes supports the idea of a continuous free flow of information and prices where investors 'do not have to wait until 8am to trade'.

How that might affect liquidity remains open to question, especially for smaller company shares which tend to be far less easily to trade as it is.

Perhaps in the long-run trading 24/7 or 24/5 (Mon to Fri) will become the norm, but for the time being, one of the potential benefits for investors of UK share dealing starting an hour later could be to give them more time to chew over morning announcements.

Most news is pre-arranged to be released at 7am each morning. This leaves just 60 minutes for analysts, fund managers and investors to digest often complex financial results and other important updates before the market opens and share prices start to move, cranking up the pressure.

The US gets round this issue by releasing most of its company announcements after the markets close for the evening, giving any interested parties the evening and early next morning to read through releases and process the news, although pre-market and aftermarket trading is also possible in the US, complicating matters.

Interestingly, London-listed **Metro Bank (MTRO)** has started to issue its updates after the UK market close.

By **Steven Frazer**
News Editor

SHELTER FROM THE STORM

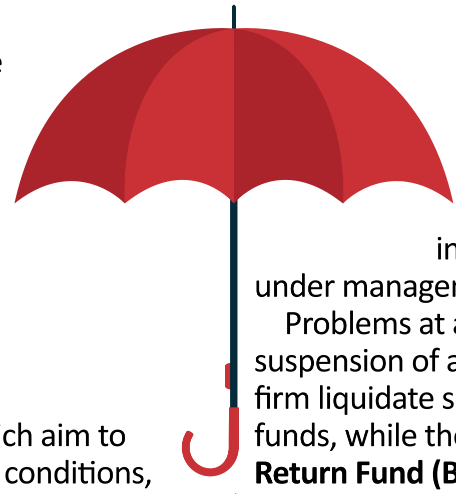
8 FUNDS WITH REASSURING QUALITIES

As investors fret over global trade wars, slowing economic growth, and inverted yield curves, which in the past have signalled recession, it's worth looking at which investment products might be useful as 'ports in a storm' if and when markets decide that the path of least resistance is down.

In theory, absolute return funds should protect your capital better than traditional funds or investment trusts as they have the ability to 'short' the market, namely profit when share prices fall. However their recent performance has been unimpressive and investors have been pulling money out of the sector hand over fist all year.

In contrast capital preservation funds have not only lived up to their name in times of market stress but they have delivered astonishingly good returns over long periods and should be high up the list of investor preferences.

In terms of total return, funds which pay out rising dividends also have a role to play and although they haven't delivered the same gains as capital preservation funds they have still beaten the market handsomely over the long term with no more risk than the benchmark.



ABSOLUTE RETURNS UNDERWHELM

Targeted absolute return funds, which aim to make a positive return in all market conditions, saw a surge in popularity among retail investors in recent years as AJ Bell's Personal Finance expert Laura Suter explains. 'Investors flooded into absolute return funds over the past few years driven by worries about global market falls and the ongoing uncertainty over Brexit,' she says.

After being the best-selling sector in 2015 and 2016, inflows were £7.2bn in the three years to December 2018, taking the total sector size to £72bn according to the Investment Association.

However positive returns aren't guaranteed, and that was certainly the case in 2018 when the average fund lost 2% after markets went into a tailspin in the final quarter of the year.

In fact their performance has been less than sparkling over the last three years, with an average return for the sector to last December of just 3% or less than half the rate of inflation meaning that investors have lost money in real terms.

As a result, cash has been flowing out of the sector even as flows into UK equity funds have begun to increase for the first time in years.

INVESTORS VOTING WITH THEIR FEET

Many absolute return funds use different benchmarks to mainstream funds and their asset allocation is at the manager's discretion which, when added to the use of derivatives, means investors are sometimes hard-pressed to understand what the managers are doing.

Standard Life Aberdeen's GARS or **Global Absolute Return Strategies (B7K3T22)** was the pioneer in the sector. Launched in 2008, and run by a team of managers with allocations to specific areas of the bond and equity markets, it aims to deliver a positive return in all market conditions and no less than 5% above the return on cash every year over any three-year period.

However, returns over one year, three years and five years are 3.6%, 2.5% and 4.2% according to FE Trustnet, and investors have withdrawn close to £10bn in the last 12 months, cutting assets under management to less than £8bn.

Problems at asset manager GAM related to the suspension of a star fund manager have seen the firm liquidate several of its absolute return bond funds, while the **Merian Global Equity Absolute Return Fund (BLP5S80)** has seen outflows of £4bn in the last year due to a one-year performance of -9.6% and a three-year performance of -0.9% according to FE Trustnet.

> **"MANY ABSOLUTE RETURN FUNDS USE DIFFERENT BENCHMARKS TO MAINSTREAM FUNDS AND THEIR ASSET ALLOCATION IS AT THE MANAGER'S DISCRETION"**

To be fair there have been winners in the sector. **Polar Capital UK Absolute Equity Fund (BQLDRR5)** has returned 3.3% over one year and 53% over three years, while the **Schroder UK Dynamic Absolute Return Fund (B3N5347)** is flat over one year and up 20% over three years.

Sadly these are outliers and although they are seeing inflows, the sector as a whole hasn't covered itself in glory, especially in the final quarter of last year when absolute return as a strategy ought to have distinguished itself.

Finally, AJ Bell's head of active portfolios Ryan Hughes warns that although absolute return funds such as Polar's look good on paper, they may not suit everyone. 'Polar Absolute Return takes excessive risk, has suffered big drawdowns and is more volatile than the FTSE All-Share,' he adds.

CAPITAL PRESERVATION TICKS THE BOX

One sector which held its own in the last quarter of 2018 was capital preservation funds, which as the name implies prioritise avoiding loss of capital.

They tend to invest in a broad spread of assets other than shares, including privately-owned companies, which means that their performance is less correlated with the stock market.

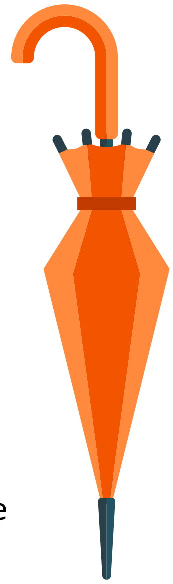
When markets roar ahead they may not keep up with the broad stock market indices, but typically they should fall less during a downturn sheltering your investment.

The average total return for the five capital preservation funds we follow most closely was -2.8% in the final quarter of 2018 compared with a 7.8% loss for the FSTE 100 index, so they did their job.

They also beat the market on average over the course of 2018 with two funds making a positive total return. **Capital Gearing (CGT)** added 3.2% last year while **RIT Capital Partners (RCP)** added 4.2% compared with a 5.2% loss for the FTSE All-Share Total Return Index.

With four out of five funds having been around since the early 1980s or longer, we have measured their performance over 25 years to take into account more than one market cycle.

Despite suffering drawdowns after the bursting of the 'tech bubble' in 2000 and/or in the global financial crisis in 2008, their performance was nowhere near as bad as the benchmarks and over the long term has been truly impressive as the table below shows.



RIT Capital Partners has generated the highest total return at just under 1,400% over the past 25 years, followed by Capital Gearing with 951% and **Personal Assets Trust (PNL)** with 725%. All three outperformed the index in 2000 and again in 2008 with shares in Capital Gearing actually gaining over 18%.

The ability of these funds to generate significantly above-average returns with significantly below-average declines when the market gets the wobbles should have investors queuing up to put money in if the outlook for stocks does worsen in the next year or two.

Troy Income & Growth (TIGT) performed well in 2000 but the shares had a howler in 2008, losing 61% of their value while the worst 12-month return for the FTSE All-Share Total Return Index was -39% and for the FTSE World £ Total Return Index it was -27%.

In Troy's defence it was only appointed manager of the trust in 2009, taking over from Aberdeen Fund Managers as it was at the time. Since taking control, the team at Troy has generated a four-fold total return for shareholders.

Newcomer **Ruffer Investment Company (RICA)**, which was launched in 2004 and therefore only has a 15-year track record, was actually the best

CAPITAL PRESERVATION FUNDS					
TOTAL RETURNS AND BIGGEST 12M DECLINES					
FUND	25YR TOTAL RETURN	Bursting of the Tech Bubble (c1999-2001)	Financial Crisis (2008-2009)	2018	Q4 2018
RIT CAPITAL PARTNERS	1393%	-12.2%	-22.3%	4.2%	-3.0%
CAPITAL GEARING	951%	-3.4%	18.5%	3.2%	-2.2%
PERSONAL ASSETS	725%	5.0%	-9.9%	-1.1%	-1.4%
TROY INCOME & GROWTH	595%	-4.2%	-61.2%	-0.4%	-4.9%
RUFFER INVESTMENT CO	173%*	N/A	21.2%	-2.3%	-2.7%
FTSE All-Share Total Return	147%	-26.9%	-39.1%	-5.2%	-7.4%
FTSE World Index £ Total Return	653%	-25.8%	-27.3%	1.9%	-6.5%
Prices taken at quarter-end beginning Q3 1994. Source: Datastream, Shares. *Ruffer Investment Co launched in 2004					

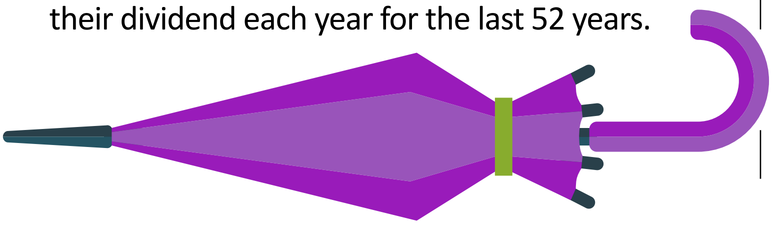
performer during the financial crisis adding 21.2% in the 12 months to March 2009. It also beat the market in final quarter of last year.

RISING DIVIDENDS OFFER PROTECTION

A key element of the total return calculation is dividends as a steadily rising income stream can help mitigate falls in share prices.

Using data from the Association of Investment Companies, we have tracked the total return of the 10 most seasoned 'Dividend Heroes' or trusts which have raised their pay-out for 20 or more years consecutively.

Three of them, **Alliance Trust (ATST)**, **Bankers (BNKR)** and **City of London (CTY)**, have raised their dividend each year for the last 52 years.



The first two were founded in 1888 and the third in 1891 so they have serious pedigree.

The oldest investment trust, **F&C (FCIT)**, was launched in 1868 and last year raised its dividend for the 48th consecutive year.

The average total return of all 10 funds over the last 25 years, including reinvested dividends, is 746% with a range of 575% to 1,046%.

Investment trusts are allowed to set aside up to 15% of their earnings each year which they can add to reserves. As Nick Britton of the AIC explains, this discipline of 'counter-cyclical' provisioning for the future is key to the trusts' ability to keep increasing their dividends even when markets are in turmoil.

'The ability of investment companies to retain some of their income in good years to supplement their dividends in leaner ones means that even through such intense market downturns as the bursting of the tech bubble and the global financial crisis, investors in any of the dividend heroes would have seen their dividends continue to increase year-on-year.'

DIVIDEND HEROES

TOTAL RETURNS AND BIGGEST 12M DECLINES

FUND	25YR TOTAL RETURN	Tech Bubble	Financial Crisis	2018	Q4 2018
BMO GLOBAL SMALLER COS	991%	-34.1%	-45.4%	-1.3%	-8.4%
CALEDONIA	843%	-23.7%	-43.2%	3.6%	-1.4%
BANKERS	835%	-23.6%	-26.6%	-3.3%	-8.6%
WITAN	735%	-31.4%	-32.0%	-1.7%	-8.7%
ALLIANCE TRUST	717%	-21.0%	-33.4%	-0.9%	-7.1%
F&C	703%	-29.4%	-32.4%	7.4%	-7.7%
CITY OF LONDON	656%	-24.8%	-29.2%	-3.3%	-6.8%
JPMORGAN CLAVERHOUSE	608%	-37.1%	-40.5%	0.5%	-9.4%
MURRAY INCOME	575%	-24.7%	-33.6%	-1.0%	-5.3%
BRUNNER	557%	-30.5%	-37.4%	-4.3%	-7.9%
FTSE All-Share Total Return	147%	-26.9%	-39.1%	-5.2%	-7.4%
FTSE World Index £ Total Return	653%	-25.8%	-27.3%	1.9%	-6.5%

Prices taken at quarter-end beginning Q3 1994
Source: Datastream, Shares

For most of the 10 funds, around half of the total return over the last 25 years has come from reinvested dividends. It's worth noting there are a couple of outliers: for **BMO Global Smaller Companies (BGSC)**, dividends represented just 30% of the total return, while for City of London and **Murray Income (MUT)** it was closer to 70% of the total return.

TRADE-OFF BETWEEN RETURN AND RISK

As with the capital preservation funds, we examined the performance of the Dividend Heroes post the tech bubble, during the global financial crisis and over the course of 2018, and measured their maximum 12-month decline. This exercise shows that higher total returns typically come with higher risk.

BMO Global Smaller Companies has the best total return over the past 25 years, which mostly come from capital appreciation rather than dividends. However its small-company bias means that in times of market stress losses can be much higher than the benchmark or the rest of the sector, as the table shows.

Meanwhile **Caledonia (CLDN)**, which has the second-best return, invests mainly in unquoted companies and private equity funds meaning that valuations are based on prices determined by financial models rather than on a widely available market price.

Its performance during the financial crisis was also significantly worse than the market and its peers. Many private equity trusts came under severe pressure during the crisis due to the fact that although valuations were falling they had to honour their commitments to continue funding their investments.

With the current concerns over liquidity in unquoted companies raised by issues at **Woodford Equity Income Fund (BLRZQ62)**, we would question whether now is the time for retail investors to be taking on this kind of exposure, although the private equity sector has learned from past mistakes and such forward funding commitments are less prevalent.

Two trusts which have generated significant outperformance versus the benchmark but didn't suffer unduly large 12-month declines or disgrace themselves last year are Alliance Trust and Bankers.

These two look to have an acceptable level of risk for the returns they are capable of generating, and reassuringly in both cases roughly half of the returns have come from reinvested dividends and half from capital appreciation.

Investors should note that good historical data doesn't guarantee a fund will continue to do well in the future, so don't buy a trust simply based on how it has done in the past expecting similar returns in the future. However, it is still important to consider past performance as it provides proof of how well a fund has done in both good and bad times.

We believe both Alliance Trust and Bankers are worth buying as they provide diversified global exposure in a careful, considered manner. We also favour Capital Gearing, Personal Assets and RIT Capital Partners among the capital preservation funds. Furthermore, we believe F&C, **Witan** and **JPMorgan Claverhouse (JCH)** are among the standout investment trusts classified as Dividend Heroes.

By **Ian Conway** Senior Reporter

WANT MORE INFO ON OUR TOP PICKS?

Click on these links to read more detailed articles on the following trusts

Alliance Trust

Bankers

Capital Gearing

Personal Assets

RIT Capital Partners

F&C

Witan

JPMorgan Claverhouse

How do I know which ETF to buy when lots track the same thing?

We explain how to sift through the crowd and the key points to consider

When you're thinking of buying an exchange-traded fund (ETF), the choice can be daunting. There are typically many funds tracking the same indices, making it difficult to know how to choose between them.

It's not as simple as just looking at the cost, although that should certainly be a key consideration. To help you with your investment journey, here's our guide to some of the ways you can narrow down your choice.

1 HOW TO GET EVEN CHEAPER ETFS

If you search for 'FTSE 100 ETF', for example, on a mainstream investment platform, you'll see offerings from the biggest providers such as Vanguard and iShares, as well as products from groups with which you may be less familiar, like Amundi and Lyxor.

If you change your search term to something like 'UK ETF' and look for funds that track newer indices, you could find lower-cost product options. This is because trademarks such as FTSE, S&P and MSCI push up the cost of ETFs which use them in their product names.

'One of the biggest costs for ETFs is the indices themselves,' said Matt Brennan, head of passive portfolios at AJ Bell. 'It's worth looking at ETFs that track lesser-known indices, especially for core exposure, because you end up with the same stocks and shares but you're not paying for the trademark of FTSE or MSCI. Do you really need that trademark to pick the 100 largest companies in the UK?'

For example, **Lyxor Core Morningstar UK UCITS ETF (LCUK)** costs just 0.04%, almost half that of FTSE 100-tracking ETFs but offering exposure to the same companies.

There are also ETFs which track core indices from less well-known German index provider Solactive, such as **L&G UK Equity UCITS ETF (LGUK)**.

For exposure to the companies in the S&P 500 without paying for the S&P brand name, **Lyxor Core Morningstar US Equity ETF (LCUD)** costs 0.04% versus 0.07% for **iShares Core S&P 500 UCITS ETF (CSP1)**. 'In general, differences of as little as 0.01% or 0.02% don't sound like much but, over a 30 or 40-year investment life, one or two basis points can turn into tens of thousands of pounds when you compound the effects,' Brennan adds. 'It's worth trying to make these little savings to increase your potential wealth.'

2 UNDERSTANDING ALL THE COSTS

If you're investing in ETFs you're probably conscious of fund charges and the impact on your returns. With ETFs, cost can affect the tracking difference, which is the degree to which the fund's performance differs from the index whose ups and downs it is trying to mirror.

'Ultimately, the cause of tracking difference is usually high fees so if you go for a low fee choice you're probably doing the right thing,' says Peter Sleep, senior investment manager at Seven Investment Management.

While it may seem an easy decision to just go for the cheapest fund that gives you exposure to the companies or assets you want, don't forget about trading costs.

'Costs are important but you need to move on from just that headline cost – there are also other costs involved in buying and selling ETFs,' says Brennan.

He explains that ETFs work like shares, they have a bid price and an offer price, and the spread between these buying and selling prices can be quite different.

'The bid/ask spread on **iShares FTSE 100 ETF (ISF)** is 0.04% which doesn't sound much but that's actually half a year's worth of fees as the ongoing fees are about 0.07%. Some providers could have a bid/ask spread worth three or four years' worth of fees so you could end up paying 30 basis points or 40 basis points just to get in and out of the ETF.'

ETFs trade at a small discount or premium to net asset value, in a similar way to investment trusts but on a smaller scale. They can trade on up to a 0.5% premium when people are buying FTSE 100 ETFs, for example. When people are selling they may trade at fair value (not necessarily at a discount), says Brennan, meaning you could end up with a difference in performance, so this is something worth looking at before you buy.

> "COSTS ARE IMPORTANT BUT YOU NEED TO MOVE ON FROM JUST THAT HEADLINE COST – THERE ARE ALSO OTHER COSTS INVOLVED IN BUYING AND SELLING ETFS"

Say you wanted an ETF which tracks Japan's Nikkei 225 index. Below is a comparison of the main features of a couple of those available to buy on mainstream UK fund platforms.

While there is a slight performance difference between the two products, what really jumps out from table is the difference in cost, and this will be the primary focus for most investors.

3 Structure, size and domicile

Fund structure and domicile are also something to consider. If you were searching for an S&P 500 ETF, for example, you may want to avoid those that are US-domiciled. Many UK-based investment platforms won't even let you buy US-listed ETFs.

COMPARING TWO ETFS TRACKING THE SAME INDEX

iShares Nikkei 225 UCITS ETF	Xtrackers Nikkei 225 UCITS ETF
Ongoing charge 0.48%	Ongoing charge 0.09%
Indicative spread* 0.11%	Indicative spread* 0.12%
Domiciled in Ireland	Domiciled in Luxembourg
£189m in size	£900m in size
27.74% return over three years	29.08% return over three years

*the percentage between the buy and sell price
Source: JustETF, iShares

'People make the mistake of buying American-listed S&P 500 ETFs which is probably the worst thing you can do because there is poor tax treatment and that can be quite complicated. Between the UK and US, and Ireland and the US, there is a double tax treaty,' says Sleep.

He adds it's important to make sure a product is UCITS (this means it falls under a European regulatory framework called Undertakings for Collective Investment in Transferable Securities). You can usually tell if it is a UCITS product by looking at the full name of the ETF as it should be included.

'When you're buying a UCITS product you get the built-in investor protections of an authorised corporate director or trustees which you don't necessarily get with a non-UCITS product.'

Sleep also suggests you might think about fund size to keep costs down. 'If you are going to filter funds, you might want an ETF that is more than £100m in size. There are some funds that are tiny and the cost of directors, custodians and so on can weigh on performance and add to the cost,' he explains.

'Other than that there's not a lot to choose between them. Cost is probably the prime cause of tracking difference over time so going for the cheapest doesn't hurt by any means.'

By **Hannah Smith**

Janus Henderson INVESTORS

Beware the disruptive regulators

In this article, Ben Lofthouse, Fund Manager of Henderson International Income Trust, explains why investors should consider regulatory diversification within their portfolios, including stock case studies that highlight the influence of supportive and obstructive regulators.

Highly regulated industries, like financial services, telecoms and utilities, can often contain companies with attractive dividend yields. Bureaucratic and often complex; regulations are the unseen forces that can protect or disrupt a company's profitability – and ultimately the dividend it pays to shareholders. In many cases, regulations are a barrier to entry for outsiders and a competitive advantage for incumbents. So, for income-seeking investors, it makes sense to gain a healthy exposure to companies operating in industries with tough or complex regulations, where it is harder for new entrants to take market share. Global portfolios are best placed to access regulated industries, in our view, as they provide flexibility to diversify regulatory risk across both sectors and countries.

REGULATIONS WITH DISRUPTIVE CONSEQUENCES

Investors need to be prudent, as regulations are constantly evolving. Often with new governments and shifting socio-political sentiment, regulations can change and quickly become troublesome to the incumbent market leader(s). You only need to look at one of the UK's largest energy providers, Centrica, to see the disruptive potential of regulatory change. As well as encouraging new competition over the past five years, the UK energy regulator, Ofgem, introduced a new energy price cap at the beginning of 2019, which has seen the company's share price slide as investors anticipate pressure on future revenue.

Unlike Centrica, investors can mitigate some of these risks by diversifying their exposure to different regulatory environments within the same sector. So that might mean you own shares in gas companies in the US, Europe and Asia, as well as a UK provider, in order to maintain exposure to the sector without being too exposed to the whims of a single supervisor.

At Henderson International Income Trust (HINT), we have a global (ex. UK) mandate to deliver a growing dividend for our shareholders, as well as grow shareholders' capital. That means we are looking for companies that pay an attractive dividend or have strong potential to grow their dividends in the medium term. The

portfolio does invest in regulated companies, but focuses on diversifying the exposures by country to avoid too much exposure to one regulatory environment.

Roughly 10% of the HINT portfolio is invested in telecom companies (telcos).The varied approaches to telco regulation between countries and regions means the returns profiles of companies within the sector can differ markedly. One of the major discrepancies here is the way in which companies are permitted to access and distribute network coverage.

TRICKY TELCOS

Telcos rely on radio waves called 'spectrum' to provide wireless services to customers. Spectrum at key frequencies is scarce and is allocated via auctions. These auctions can be competitive and costly, with telcos aiming to recuperate the investment over time by selling mobile services. In the US, telcos buy perpetual rights to spectrum, while European telcos purchase the rights for a set time period, after which they must bid to renew their licenses.

The difference between European and US spectrum regulations means that US companies have more time to recover the costs and more certainty around their return on investment. In Europe, competition is often encouraged with auctions being employed as a mechanism to introduce new mobile operators into the market.

More recently, the regulatory environment in some European countries has shifted focus from encouraging competition to supporting investment. In France, for example, the regulator provided an extension of some existing spectrum licenses on the condition that the telecom companies invest to provide service across the country, including rural areas. This serves to benefit the telcos, government and consumers by accelerating the pace of network investment at a lower overall cost.

The Trust holds a position in Orange, France's largest network operator, which we see as positioned to benefit from the more supportive regulatory environment, as well as the French supervisor's openness to market consolidation. This could drive a more stable competitive environment, supporting higher returns and providing greater capital flexibility to invest in next generation networks. Orange is also a multinational operator, which means it is exposed to different regulators, thus mitigating the risks associated with operating under a single regulator.

In other countries we have taken profits and decided to exit the market entirely because the pendulum is beginning to swing the other way. In Japan, the regulator is encouraging new competition and pricing pressure, which we feel is unsupportive for dividend growth. The Canadian regulator, on the other hand, has been more consistent, and the three-player market has supported rational competition and gradual pricing growth over the years.

Generally speaking the telecom sector is cash generative and provides attractive dividend yields; we continue to focus on investing in companies that are exposed to a regulatory framework that allows companies to balance cash flow generation and investment.

FINANCIALS' DIFFICULT DECADE

The largest weighting by sector in the HINT portfolio is financials, which includes retail banks, insurers, asset managers and investment banks. This is perhaps the most regulated sector of all, but since the global financial crisis (GFC) of 2007-08, regulators have moved at different speeds and with different areas of focus, giving rise to vastly different operating conditions around the world.

For example, financial institutions on either side of the Atlantic are operating in widely different regulatory environments. For the past two years or so, US regulators have been relaxing some of the more stringent rules introduced around capital reserves post-GFC, affording companies more flexibility on the balance sheet. In Europe, on the other hand, the pace of reform has been much slower and companies are still adapting to complex regulations and their new supranational supervisors, including the European Banking Authority (EBA) and insurance and pensions supervisor EIOPA.

BEN LOFTHOUSE, CFA - FUND MANAGER

As a result, European financial institutions, including British-based firms, have endured a difficult decade of regulatory reform and tough economic conditions. Some companies, however, have invested well and adapted, putting them in a strong position as the dust settles after the regulatory upheaval in the aftermath of the GFC. One such company we feel has managed this is France-based multinational insurer Axa.

With its European life insurance business under immense pressure, owing to strict capital-intensive rules and ultra-low interest rates, the group has diversified its business mix through a number of takeovers and acquisitions. Last year, the group completed the full takeover of Bermuda-based XL Catlin (formerly XL Group), a property and casualty insurer with large operations in the US; and more recently it acquired a smaller and relatively new underwriter called Vindati, which specialises in US marine cargo.

We believe these deals put Axa in a stronger position to overcome the economic and regulatory hurdles it faces in Europe right now, providing a desirable exposure to US financial regulation and high growth business areas within the insurance industry.

In summary, there is little to gain from owning shares in different companies that have the same regulator; it is far more prudent to find overseas firms with supportive regulators. That's exactly what we have been doing at HINT. With a mandate to deliver a growing income for our shareholders without investing in the UK, we look for companies operating in cash-generative industries with supportive regulation, which should provide a very healthy diversifier for investors with exposure to UK domestics.

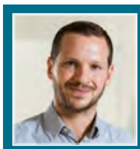
'How much does advice cost for pension transfers?'

AJ Bell pensions expert Tom Selby looks at the typical charges

My wife is 64 and has a final salary scheme that will provide just under £5,000 per year. The transfer value is £140,000.

We have other assets so transferring the money to a SIPP rather than taking the employer pension seems sensible, especially when considering inheritance tax.

As it is obligatory to take financial advice for pots over £30,000, what is a reasonable amount to pay an adviser to do this exercise to satisfy the final salary sponsor's actuary?
Stephen



Tom Selby
AJ Bell
Senior Analyst says:

Anyone with a defined benefit (DB) or final salary pension worth £30,000 or more is required by law to take regulated financial advice before transferring their pension to a defined contribution plan such as a SIPP.

This requirement also exists for old-style pension policies with guaranteed annuity rates.

Advising on DB pension transfers is a highly specialist area with stringent qualification requirements over and above those needed for other areas of financial advice.

These are deemed necessary by the FCA, a regulator, because of the complexity involved in making a recommendation about whether or not to give up valuable guaranteed pensions.

As a result of the extra complexity involved, alongside the professional indemnity insurance costs advisers must bear when carrying out DB transfer business (more information here), advice in this area won't come cheap.

Advice charges vary based on things including an adviser's experience, services offered and cost base.

The FCA suggests the average charge levied on a contingent basis – that is where you only pay if the adviser recommends you transfer – is 2% to 3% of the transfer value. So in your wife's case, this would equate to a fee of between £2,800 and £4,200.

Unbiased, the independent advice search organisation, says on average DB transfer advice costs £3,800.

It's worth noting the regulator has proposed banning contingent charging from next year, meaning you will have to pay for advice regardless of the adviser's recommendation.

Advisers will often only carry out a DB transfer if you agree to allow them to continue to manage your money afterwards.

The FCA has made it clear advisers need to consider not just the merits of the transfer itself, but where the funds are subsequently invested. As a result, many feel they need to provide ongoing advice to manage their own business risks.

Finally, while having other assets might make you more comfortable about your wife giving up her guaranteed pension, there are many other things to consider.

A good adviser will assess your entire financial situation – including consideration of your incomings and outgoings, and areas like inheritance tax – before making a decision on whether or not to recommend a transfer.

Given you will likely be paying thousands of pounds for this service, make sure you engage and consider what they say very carefully.

DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

Send an email to **editorial@sharesmagazine.co.uk** with the words 'Retirement question' in the subject line. We'll do our best to respond in a future edition of *Shares*.

Please note, we only provide guidance and we do not provide financial advice. If you're unsure please consult a suitably qualified financial adviser. We cannot comment on individual investment portfolios.

THE FTSE 350 STOCKS MAKING OUR LIVES BETTER

The third part of our series examines companies providing essential products and services

By Yoosof Farah, Tom Sieber and Steven Frazer

Invest in what you know is the golden rule for first time investors. This advice has stood the test of time and is a great way for people to get to know what investing is all about.

Fortunately, there are many companies on the FTSE 350 which are household names.

But when you get more comfortable with investing and how the stock markets generally work, there's a whole host of companies less familiar to the general public, but which are vital to our everyday lives.

They could one day make you a mint or least keep your money ticking over nicely.

Having looked at FTSE 350 consumer stocks last week we now take a look at those working behind the scenes, the quiet operators of the index which in one way or another help provide the heating in your house, the engine in your car, or just generally make sure you're able to do your online shopping, for example.

In industries such as chemicals, engineering and oil and gas services, we also pick five of our favourites among these unsung heroes.

Next week (5 September) conclude our FTSE 350 series by looking at the FTSE 350 stocks with inflation-busting dividend growth.

IN AN AGE where the UK's reputation may have taken a battering from Brexit, good old British engineering still flies the flag for the country globally, and as such is well-represented on the FTSE 350.

Aside from engine-maker **Rolls-Royce (RR.)**, you may not have heard of most of the engineering firms in the index such as **IMI (IMI)**, **Spirax-Sarco (SPX)** and **Weir (WEIR)**.

Many of them provide specialist products in niche areas of the market, meaning they are considered to be in a good position to weather the storm of a no-deal Brexit and/or escalations in US/China tensions. However, investors have been nervous to own them, as reflected by widespread share price declines in the past year.

CYBERSECURITY HAS BECOME an ever increasing part of our lives, thanks to the rapid rise of technology and the corresponding spike in digital crooks.

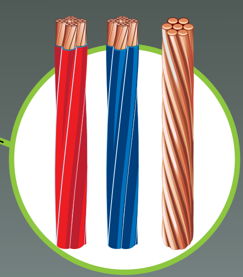
There are two main players in the FTSE 350: **Sophos (SOPH)** and **Avast (AVST).** Sophos is likely to be the one that keeps your employer safe online, while Avast would be the one that keeps you safe online.

Both have opportunities aplenty going forward, given that the global market is expected to be worth $1trn by 2021, compared to the $120bn it was worth in 2017.

MINING COMPANIES ARE among the biggest in terms of market value in the FTSE 350 index. They are important, digging metals and minerals out of the ground that are vital to our everyday lives such as copper which is a bellwether for global trade due to its widespread use.

The sector has some big, dividend-paying companies like **Anglo American (AAL)**, **BHP (BHP)** and **Rio Tinto (RIO)** which produce lots of different commodities.

Others only focus on one thing, such as gold or copper. Gold miners in particular have done well recently as the gold price soars due to worries over the world economy.



SO MANY PRODUCTS are now bought online and delivered straight to our doors. While the delivery companies may seem to be the unsung heroes, it's worth considering the packaging guys, without whom our love of online shopping may never have grown so big.

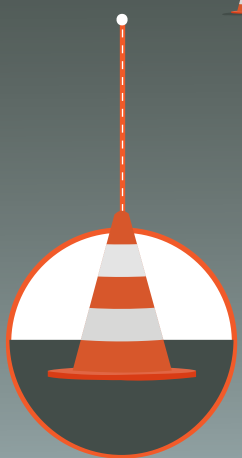
FTSE 350 group **DS Smith (SMDS)** is the one that makes those cardboard coverings you get when you buy something off Amazon, while shares in big-time wrappers **Mondi (MNDI)** and **Smurfit Kappa (SKG)** also trade on the UK stock market.

Packaging firms tend to be cyclical and sell off when investors get worried about global growth, hence why the sector has been weak of late. Yet there is still long-term structural growth driven by online shopping.

Oil and gas firms power our world. A structural shift to renewable energy is under way across the globe, but oil and gas still make mega bucks and in a recent Forbes list the industry had the most profit growth globally.

Nonetheless, oil prices in particular can be highly volatile and would be vulnerable if there is a slowdown in global economic growth, something markets are quite scared about at the moment.

Aside from **BP (BP.)** and **Royal Dutch Shell (RDSB)**, most oil and gas firms in the FTSE 350 tend to be explorers, and one in particular, **Tullow Oil (TLW)**, has made strong gains this month following a major oil discovery.



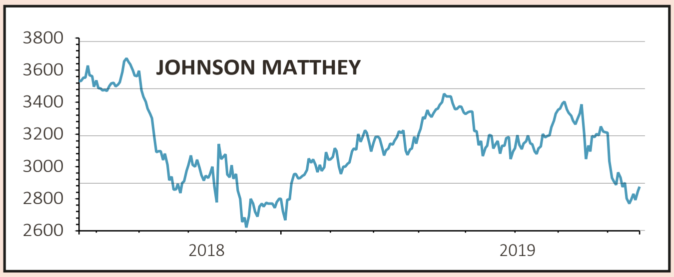
IF YOU'VE BOUGHT a new build house, you may know the name of the company who built it. But you probably don't know the company that built the road leading up to your house or who provided the materials to build the road.

In the FTSE 350, **Balfour Beatty (BBY)** is an example of a company doing building work. But its share price now is no higher than when it first listed back in 1995, and these types of companies – called contractors – are struggling in the current environment. You only have to look at the woes of Carillion and **Kier (KIE)**.

An alternative is to look at companies supplying materials, such as **CRH (CRH)**, **Marshalls (MSLH)** and **Keller (KLR)**, who have performed strongly this year.

5 'MAKING OUR LIVES BETTER' STOCKS TO BUY NOW

JOHNSON MATTHEY (JMAT) £28.55 BUY



CHEMICALS EXPERT **Johnson Matthey (JMAT)** makes most of its money, around 70% of its total revenue, from catalytic converters, which reduce the toxicity of gases from your car before they're released via the exhaust.

The FTSE 100 firm has had a volatile couple of months, disappointing investors with underwhelming first quarter growth figures.

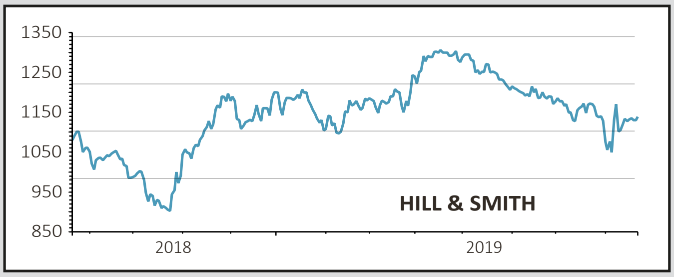
But long-term, investors remain excited about the company's prospects. Not because of its catalytic converter business, but because of a tiny part of its business that could become a significant source of revenue in the future.

In this division, called New Markets, Johnson Matthey is developing a type of battery that could disrupt the whole electric vehicle market.

The firm has invested heavily in developing enhanced lithium nickel oxide, or eLNO for short, which has a higher energy density than all other battery materials, making it a lot more attractive for electric vehicle manufacturers.

The firm recently told investors it needs a much better second half of the year if it is to meet full year expectations, so the share price could be volatile in the short-term. But if it gets eLNO right, it has the potential to be a strong long-term winner.

HILL & SMITH (HILS) £11.41 BUY



IF YOU'VE ever driven down a motorway or ridden a train across a bridge you'd have seen some of **Hill & Smith's (HILS)** safety infrastructure products.

It manufactures the roadside crash barriers placed on bends or the central reservation of motorways, as well as bridge-side fencing, street lighting and pipe network supports. It also has a galvanising business that provides zinc corrosion coating protection against rust.

It's one of those key suppliers whose kit helps keep the UK and all of our day-to-day lives ticking along smoothly. It is also a capital growth and income returns story worth knowing, one that has increased dividends every year since 2002, typically in the high single-digits or better.

The stock has hit the skids over the past year after a series of project delays, partly due to the previous Beast from the East winter, but it seems to be back on track.

Half year results on 7 August underlined robust road infrastructure spending both in the UK and in the US as the company posted double-digit increases in revenue and earnings.

A 2020 price-to-earnings multiple of 13.1 is good value for a business noted for its 'strong medium-term outlook,' as one analyst puts it, even with the uncertainties surrounding Brexit.

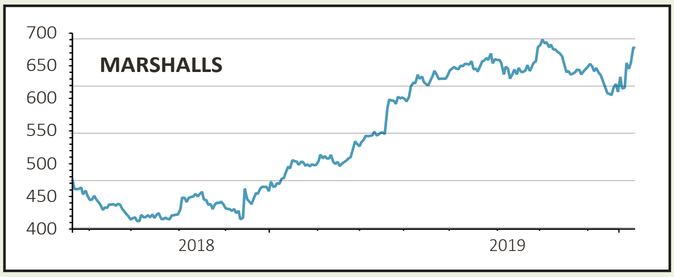
MARSHALLS (MSLH) 676P BUY

SPECIALIST BUILDING products firm Marshalls is focused on landscaping products such as bollards and paving slabs. Despite an uncertain outlook for the wider construction space, it continues to tick along nicely with 10% like-for-like growth in first half sales in 2019.

A recently refreshed strategy out to 2023 will see the company continue to focus on areas in which it sees long-term potential including housebuilding and transport infrastructure.

The company is also investing in innovative new products and in upgrading its digital platform, which should make its products more accessible to clients.

The shares aren't cheap at 22 times forecast earnings but we think it is worth paying up for a quality business which has a clear plan of how to thrive in the future no matter the market backdrop.



WOOD GROUP (WG.) 397.1P BUY

WOOD GROUP is a more diversified business since its $11bn merger with Amec Foster Wheeler in October 2017, with exposure to areas like renewables and industrial manufacturing alongside its more traditional oil and gas focus.

The business provides a range of services, from supporting oil rigs in the North Sea and improving the performance of industrial equipment, to running and maintaining clean energy projects.

First half results were a bit untidy with a fair number of adjustments but still showed a solid performance overall as the company swung to a $13m profit for the period. Unchanged full year guidance was also underpinned by the fact 87% of 2019 revenue has already been secured or delivered.

A key sticking point has been the company's elevated debt position but the £250m sale of its nuclear business will help the deleveraging process.

Reducing borrowings could also help unlock the value in the shares which trade on 8.2 times 2020 earnings and yield around 7%.

SMITH & NEPHEW (SN.) £19.47 BUY

MEDICAL DEVICES firm **Smith & Nephew (SN.)** is well positioned for growth, targeting the right markets with the right products.

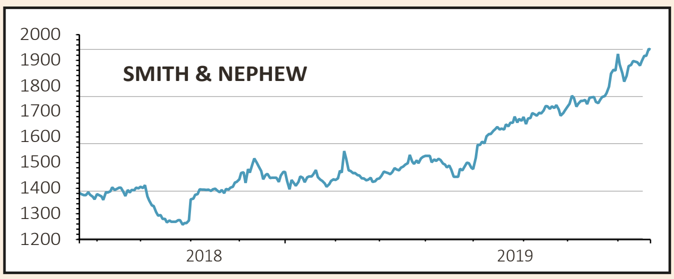
While the historic track record for the business has been patchy at times, recently-appointed CEO Namal Nawana has wasted no time in reinvigorating the business since his appointment in May 2018.

Under Nawana there is a more focused approach built on three key pillars: orthopaedics, sports medicine and advanced wound management.

Orthopaedics is the largest of these at 44% of revenue and makes replacement hips and knees. The sports medicine arm, which uses implants to treat ligament tears and ruptures, is benefiting from demographic changes which see an increasing number of people stay active into later life.

The company's wound management division has a fast-growing component in active healing where materials used on wounds help heal through the release of antiseptics or plant extracts, for example.

The company's mid-single-digit organic growth could be augmented by M&A activity in expanding markets, something Nawana has signalled as a priority.



Why Brazil's Bovespa index is buoyant

New president is seen as being positive for the stock market

The election of the perceived market-friendly Jair Bolsonaro as president in October 2018 has proved a strong catalyst for Brazilian equities in 2019.

The flagship Bovespa index is up a healthy 13.2% so far this year, compared with an 11.1% advance for the FTSE All-World, according to data from SharePad.

The Bolsonaro administration, which has attracted criticism for authoritarian tendencies and socially conservative policies, has nonetheless pleased foreign investors by announcing pension reforms and is beginning to look at the tax system.

It has not all been smooth sailing though with the government slashing its own GDP growth forecast for the year in half to 0.8% in July and unemployment still at elevated levels. In response finance minister Paolo Guedes announced plans to inject $11.2bn worth of stimulus to get the economy moving.

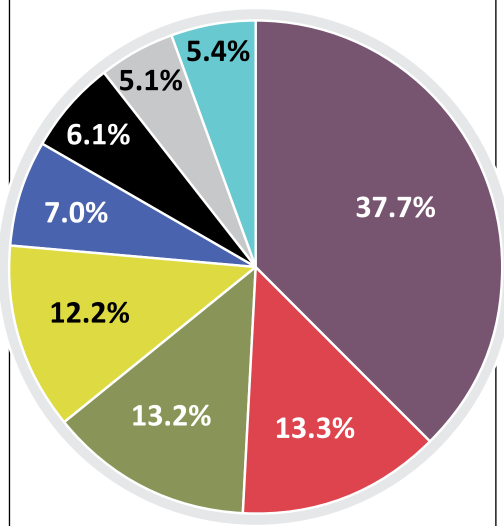
The MSCI Brazil index is designed to measure the performance of the large and mid-cap segments of the Brazilian market. With 55 constituents, the index covers about 85% of the Brazilian equity universe and therefore offers a good overview of the Brazilian stock market.

Although the country is rich in natural resources, financials is the sector with the heaviest weighting on the index and accounts for six out of the 10 largest constituents.

Brazilian banks have historically benefited from the dominant position of just a few operators, strong interest rates and the growth potential from operating in an inherently less mature market.

It is not unusual for banks in Brazil to deliver returns on equity upwards of 20%. At best UK banks operate at around half that level.

BOVESPA INDEX BREAKDOWN



Financials	37.7%
Energy	13.3%
Materials	13.2%
Consumer Staples	12.2%
Consumer Discretionary	7.0%
Industrials	6.1%
Utilities	5.1%
Other	5.4%

Source: MSCI, as at 31 July 2019

Emerging Markets: Views from the Experts

Three things the Franklin Templeton Emerging Markets Equity team is thinking about today

1. For the first time in more than a decade, the US Federal Reserve (Fed) cut the policy interest rate by 25 basis points.

While the cut was widely expected, the market was disappointed by the reference to the rate as a 'mid-cycle adjustment' and not likely the beginning of a prolonged easing cycle.

However, the Fed did concede that uncertainties remain, leaving the door open to rate cuts in the future.

We believe the Fed's rate cut could help extend US growth longer and will likely be positive for emerging markets overall, given the importance of the US economy as a growth driver.

2. Brazil's lower house of Congress overwhelmingly approved a landmark pension reform bill in July, a positive step in a process that should substantially shore up the country's fiscal situation.

While it still needs a full congressional vote, we think this is a positive development.

Savings from the reform are expected to reach $235bn over the next 10 years. After the approval of the pension system reform, we expect tax reform to come next, along with privatisations and more microeconomic reforms aimed at improving Brazil's regulatory environment.

3. India's budget for fiscal year 2019/20, which aims to give the economy a boost via tax cuts and other measures to stimulate foreign investment, was released in July.

With the elections behind us, we expect market focus to shift to the fundamentals, such as earnings growth, inflation and fiscal prudence.

The risks we currently see are related to global factors, such as trade tensions, US monetary policy and rising oil prices. However, rising domestic consumption has tilted India's economy to be less reliant on the export sector, which makes India less vulnerable to adverse global factors.

TEMPLETON EMERGING MARKETS INVESTMENT TRUST (TEMIT)

Porfolio Managers

Chetan Sehgal
Singapore

Andrew Ness
Edinburgh

TEMIT is the UK's largest and oldest emerging markets investment trust seeking long-term capital appreciation.

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RENEURON GROUP (RENE)
Speaker: Michael Hunt, CFO
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+ More to follow...

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Is the yield curve reliable or not?

Examining if this indicator always points to a recession when it is inverted

The yield curve on government bonds is grabbing a lot of headlines and not all of them are encouraging ones for investors.

In fact, there are four types of yield curve, using the difference in yield between two and 10-year government bonds as our benchmark.

Normally, the yield on the 10-year paper would be higher than that of the two-year as investors demand compensation for the additional eight years to maturity, as this means there is more time for things to go wrong (inflation, interest rate increases or default being the main three dangers).

• **Normal**. Here the yield on the 10-year paper is higher than that of the two-year.

• **Steep**. In this case, long-term yields rise more quickly than near-term ones as investors price in an acceleration in economic growth and interest rate increases. Investors fear being locked into low rates and demand greater compensation for owning longer-dated paper.

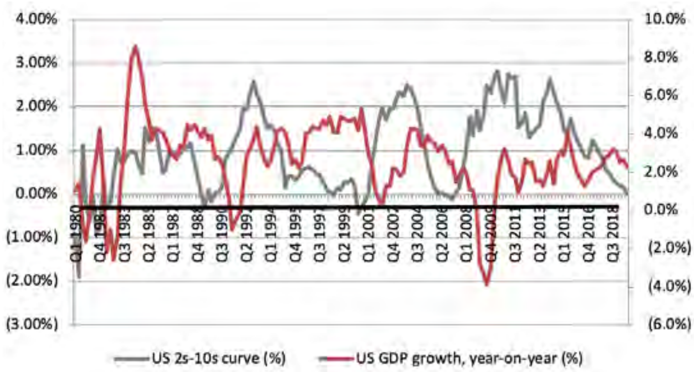
• **Flat**. This is where the bond market is unsure how to proceed. Yields on two and 10-year paper are the same as the economy transitions from downturn to upturn or upturn to downturn.

• **Inverted**. Here, bond markets fear an economic slowdown or recession and the yield on longer-dated bonds drops below that of shorter-term paper. This happens because investors price in future interest rate cuts in response to the slowdown and a drop in coupons on bonds issued by governments in the future.

Right now, all the talk concerns the US yield curve and how it is inverting. The yield on US 10-year Treasuries is, at the time of writing, 1.577% compared to 1.569% on two-year Treasuries (and in early August the 10-year yield was nearly 0.10% below that of the shorter-term issue).

This is prompting much hand-wringing because the recessions that began in 1980, 1982, 1990, 2000 and 2007 were *all* preceded by an inversion of the yield curve.

RECENT US RECESSIONS HAVE ALL BEEN PRECEDED BY YIELD CURVE INVERSIONS



Source: Refinitiv data Source: Company accounts

The prospect of a recession is a worry for those investors exposed to so-called 'risk assets' like equities and commodities as it will hit their earnings power and demand for them respectively, to the possible detriment of their valuations and prices.

ENTER THE BANKER

All may not be lost for two reasons. First, not every inversion has preceded a recession. In plain English, there have been false signals. Inverted curves in 1994-95 and 1998 did not see a downturn, for example.

Second, Japan's experiences since 1990 suggest the yield curve can be a poor predictor of economic activity. In the 1980s it wasn't bad (calling the downturn of 1985 and the 1990 peak rather accurately) but it has been pretty hopeless since then.

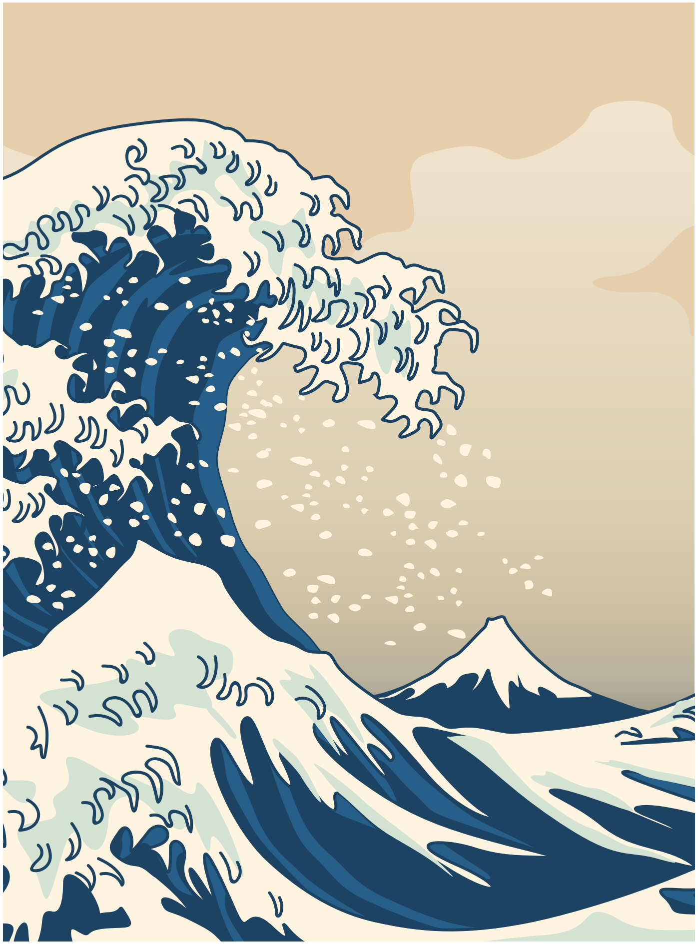
This is not to say the Japanese experience is entirely encouraging. After all, it suggests that the yield curve stopped being useful as soon as the Bank of Japan got stuck into zero interest rate policies and quantitative easing (QE) in the early 1990s, as it responded to the bursting of the country's debt-fuelled stock market and property bubble. In other words, central bank manipulation of the bond market has dulled the indicator's edge.

STOCK MARKET SIGNS

Even if the bankers can muddy the bond market waters can they actually stave off a downturn and a fall in equity markets (forever)?

In Japan, the yield curve has become of progressively less use when it comes to trying to read where the Nikkei 225 stock index may go. If anything, a steeper yield has signalled lower stocks (as the Bank of Japan tried to raise rates and step back from QE) and a flattening one has foretold of higher share prices (as the BoJ stepped on the monetary gas once more).

We therefore have to see whether Mark Carney (and his successor) at the Bank of England and Jay Powell at the US Federal Reserve are as successful in bending markets to their monetary will.



Inverted yield curves in 2000 and 2007 helped to call the top for the FTSE All-Share index – and the UK yield curve is inverting again right now.

AN INVERTED YIELD CURVE WARNED OF SHARE PRICE STRIFE IN THE UK IN 2000 AND 2007

Source: Refinitiv

An inverted curve also warned of trouble in the US in the early 1990s, 2000 and 2007. And even when the yield curve was wrong on the economy in 1994-95 and 1998, financial markets were very volatile, thanks to the Mexican peso devaluation crisis of 1994 and the Asian and Russian debt bombs and devaluations of 1997-98.

AN INVERTED YIELD CURVE HAS OFTEN BEEN A BAD SIGN FOR US STOCKS

Source: Refinitiv

So even if the bankers can fend off a recession, who is to say that investors should put blind faith in them when it comes to share prices?

By **Russ Mould**
AJ Bell Investment Director

The star performer among Europe-focused investment trusts

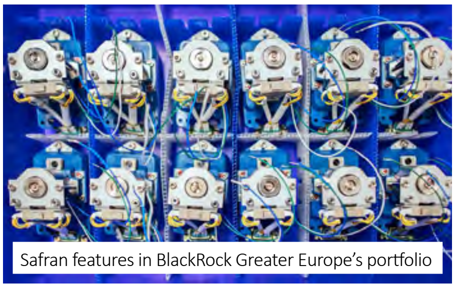
We look at the performance of European trusts and explain why BlackRock's fund stands out

Risks to growth across Europe appear skewed to the downside given the impact of global trade-war rhetoric on sectors including autos and industrial chemicals.

However, investors shouldn't dismiss a select band of niche growth companies making profitable progress under their own steam, yet which just happen to be Europe-based.

Within the investment trusts sector, professionally-managed exposure to this region is offered by the likes of **Fidelity European Values (FEV)**, **Henderson European Focus (HEFT)** and **Jupiter European Opportunities (JEO)**.

We really like **BlackRock Greater Europe Investment Trust (BRGE)**, the sector's best one-year performer in share price total return terms, and the second best performer over five and 10 years, according to the AIC.



Safran features in BlackRock Greater Europe's portfolio

Since its 2004 launch, BlackRock Greater Europe's net asset value (NAV) has increased 423.5% (as at 30 June 2019) versus 266.5% for the FTSE World Europe ex-UK index.

And while capital growth is the focus for this fund, BlackRock Greater Europe's annual distributions have increased every year since inception.

The trust has been co-managed by Stefan Gries since the summer of 2017. Since then, there has been a notable uptick in performance. The German national and fluent Spanish speaker has strengthened the investment philosophy, shifted to higher conviction positions and opportunistically used debt to try and enhance returns.

ONE TRUST, TWO TEAMS

BlackRock Greater Europe offers exposure to high-quality, niche businesses trading at a discount to their estimated intrinsic value.

Gries focuses on companies in developed European markets

EUROPE-FOCUSED INVESTMENT TRUSTS

Investment Trust	Total assets (m)	Price (p)	Discount/ Premium to NAV (%)	1 year return (%)	5 year return (%)	10 year return (%)
BlackRock Greater Europe	341.8	388	-2.1	10.6	90.6	247.8
Fidelity European Values	1,195.50	246	-8.7	9.6	84.8	206.2
Henderson EuroTrust	274.3	1,140	-10.7	4.2	65.5	227.2
Henderson European Focus	312.3	1,230	-10.0	1.1	53.6	203.8
JPMorgan European Income	203.7	150.25	-11.4	-0.4	55.8	197.4
Jupiter European Opportunities	1,055.50	839	-3.4	-0.8	111.6	532.6
JPMorgan European Growth	275.1	283.5	-13.1	-4.4	51.8	152.7
European Investment Trust	357.6	771	-13.2	-11.7	22.5	118.0

Source: The AIC/Morningstar

whereas his colleague Sam Vecht specialises in emerging market opportunities.

'We think BlackRock Greater Europe is a little bit unique in the sense that it gives you access to two teams that are part of the fundamental equity platform at BlackRock,' enthuses Gries.

Investing across the market cap spectrum, the trust aims to generate long term capital growth from a relatively concentrated book of 35 to 45 European equities, carefully selected from an investable universe of around 2,000 companies.

Currently there are 34 positions – 30 in the developed European bucket and four in the emerging European bucket – and Gries says his charge is 'marginally geared' right now, referring to the use of debt to support further investment in the markets.

WHAT DOES THE TRUST LOOK FOR?

The trust has four primary investment criteria: a quality management team with a record of value creation; a unique aspect such as a product, brand or contract structure; a high and pred ictable return on capital with strong free cash flow conversion, typically a sign of clean accounting; and the ability to invest for future growth.

Companies considered for inclusion undergo thorough fundamental analysis and company management meetings form a key element of the research process. Positions may be sold if the original 'buy' thesis no longer holds true, if the investment case has played out or if a superior investment opportunity is identified by stock pickers Gries and Vecht.

Gries' job is to boil down the investable universe to the most compelling investment cases that Europe has to offer.

He seeks out businesses with characteristics that lend themselves to wealth creation over the medium to long term.

'We often call them "giants in niches" – businesses operating in a part of the market that is quite "nichey", where there is a dominant player with high market share and they have pricing power and therefore the returns are shielded.

'It is very hard to replicate what they do and there is a degree of predictability to what they do. We often find that the true earnings power of these sorts of businesses is underestimated by the market.'

Gries says every time the team look at an idea as a potential new investment, they try to establish if the stock has the qualities to be owned for at least the next three to five years.

He also explains that the majority of the trust's outperformance has come from stock selection rather than geographic and sector allocation.

WHAT'S IN THE PORTFOLIO?

BlackRock Greater Europe's portfolio includes enterprise software provider SAP, France-based aerospace manufacturer Safran and German sportswear giant Adidas. It also features investments in Danish insulin maker Novo Nordisk and DSV, a freight forwarding company whose recent acquisition of Swiss logistics rival Panalpina should boost scale in a consolidating industry.

A 'giants in niches' example is Ferrari, the Italian sports car maker which has pricing power, expanding profit margins and a growing order book. Gries believes Ferrari's management have understood brand power and how to create desirability.

The fund manager also hold French spirits producer Remy Cointreau in the portfolio in the belief that its earnings power is underestimated by the wider market.

SHARES SAYS:

Buy this investment trust as a way of getting exposure to quality companies in Europe.

By **James Crux**
Funds and Investment Trusts Editor

KEY

- **Main Market**
- **AIM**
- **Investment Trust**
- **Fund**
- **Exchange-Traded Fund**

KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full year results

2 September: Dechra. **3 September:** Mattioli Woods, Supermarket Income Reit. **4 September:** Dunelm, Frontier Developments. **5 September:** Alumasc, Beeks Financial Cloud, Genus, Go-Ahead.

Half year results

30 August: BBGI, Emis. **3 September:** Dalata, Frenkel Topping, Impact Healthcare, IQE, Johnson Service, Michelmersh, Restaurant Group, STV. **4 September:** Barratt Developments, BioPharma Credit, Just Group, Oxford BioMedica. **5 September:** Curtis Banks, EnQuest, Gem Diamonds, McBride, Mpac, PPHE.

Trading statements

3 September: DS Smith. **4 September:** Halfords. **5 September:** Dixons Carphone.

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THIS WEEK: 18 PAGES OF BONUS CONTENT

SHARES SPOTLIGHT

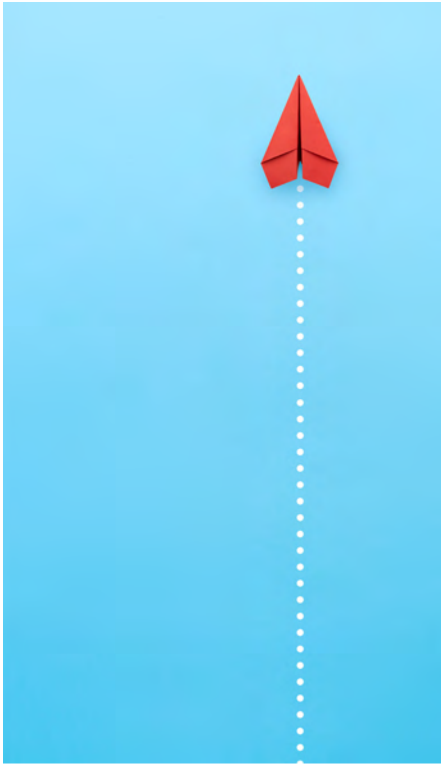
Growth & Innovation

BELVOIR GROUP
DIURNAL
OPEN ORPHAN
OPG POWER VENTURES
SCANCELL

INCLUDES COMPANY PROFILES, COMMENT AND ANALYSIS

AUGUST 2019

ISSN 2632-5748



Introduction

Welcome to *Spotlight*, a bonus report which is distributed eight times a year alongside your digital copy of *Shares*.

It provides small caps with a platform to tell their stories in their own words.

The company profiles are written by the businesses themselves rather than by *Shares* journalists.

They pay a fee to get their message across to both existing shareholders and prospective investors.

These profiles are paid-for promotions and are not independent comment. As such, they cannot be considered unbiased.

Equally, you are getting the inside track from the people who should best know the company and its strategy.

Some of the firms profiled in *Spotlight* will appear at our investor evenings in London and other cities where you get to hear from management first hand.

Click here for details of upcoming events and how to register for free tickets.

Previous issues of Spotlight are available on our website.

DISCLAIMER

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Small cap UK energy plays

The energy sector is dominated by large businesses with the pockets deep enough and expertise necessary to handle the complex infrastructure involved.

Sometimes these giants of the industry sometimes fall short as **National Grid (NG.)** found with the recent power cut which hit commuters and households alike.

From an investment perspective, it isn't all about the large names. There are several smaller UK-listed companies which are looking to bring some innovation and entrepreneurial spirit to the power space.

In this article we will look at some of these names in a more detail and examine their respective growth strategies.

A FLEXIBLE APPROACH

On this list of small cap energy plays is **Plutus Powergen (PPG:AIM)** which actually benefited from the UK's recent power outage drama.

The business is focused on helping to mitigate the current and forecast risk of an energy deficit by developing a portfolio of 20 megawatt (MW) power sites, which can be switched on at a moment's notice at times of peak demand.

To this end, it has six operating sites and a pipeline of sites at various stages of development.

All six of the company's 20MW power generation sites were utilised in response to recent outages that hit the UK grid.

The company's sites automatically turn on when grid frequency drops below a certain level under the UK's Firm Frequency Response Scheme.

Plutus PowerGen confirmed that it would receive payment in return for its availability, without detailing a specific amount.

DEVELOPMENTS IN THE ENERGY SECTOR

According to the latest Statistical Review of World Energy from **BP (BP.)**, 2018 saw primary energy consumption grow at a rate of 2.9% last year, almost double its 10-year average of 1.5% per year, and the fastest since 2010.

By fuel, energy consumption growth was driven by natural gas, which contributed more than 40% of the increase.

All fuels grew faster than their 10-year averages, apart from renewables, although the latter still accounted for the second largest increment to energy growth.

China, the US and India together accounted for more than two thirds of the global increase in energy demand, with US consumption expanding at its fastest rate for 30 years.

POWERING UP IN INDIA

A smaller outfit seeking to take advantage of the rapidly expanding demand for energy in India is **OPG Power Ventures (OPG:AIM)**.

The company is a developer and operator of power plants, principally in the industrial state of Tamil Nadu. Management have been reshaping the business and

you can read more about that process in the company's own words in this edition of *Shares Spotlight*.

The company is also working on developing renewable sources of energy. Political pressure means the renewable energy is becoming an increasingly hot topic although 2018 saw progress stall in this area.

For the first time since 2001 growth in renewable power capacity failed to increase year on year. New net capacity from solar PV, wind, hydro, bioenergy, and other renewable power sources increased by about 180 gigawatts (GW) in 2018, the same as the previous year, according to the International Energy Agency's latest data.

That's only around 60% of the net additions needed each year to meet long-term climate goals.

RENEWABLES FOCUS

A UK small cap which is active in the renewables space is **Good Energy (GOOD:AIM)** which is a supplier of 'ethical' energy to households and businesses.

The company was founded two decades ago with the ambition to tackle climate change by generating and investing in renewable energy.

Since inception the focus has been on supplying clean power sourced from its own generation assets as well as from independent, UK-based generators.

Headed by founder Juliet Davenport the company's shares have been strong in 2019. In June ahead of the company's AGM she noted: 'As we move from "supply" model of business to "share" model, our future value to customers is in energy services, which we have made significant strides towards in the last 12 months.

'We have commenced our smart metering roll-out - the great enabler for a shared energy future, specifically in the domestic market. In Zap-Map, we have invested in the leading electric vehicle data platform, creating huge opportunities for services in the crucial area of clean transport.

'In our HAVEN project researching vehicle to home energy sharing, we are developing how clean transport and the smart home interact.'

Finally, an energy supplier in a more traditional mould is **Jersey Electricity (JEL)**. The company is the sole supplier of electricity of in Jersey, Channel Islands with nearly 50,000 domestic and commercial customers. The company has historically been a generous payer of dividends.

BELVOIR!

Belvoir – the UK's largest property franchise group

Website: www.belvoirgroup.com

Founded in 1995, **Belvoir Group (BLV:AIM)** became the first residential lettings agency to launch on AIM in 2012. Belvoir now represents the UK's largest property franchise; supporting a network of 372 individual businesses across four distinct brands specialising in residential lettings and sales, property management, and property-related financial services.

The group supports landlords, tenants, buyers and sellers throughout their property journey through two channels: a network of property franchisees and a network of financial advisers.

Managing over 64,650 properties and head quartered in Grantham, Lincolnshire, in 2018 the group reported revenue of £13.7m and a progressive total dividend of 7.2p for the year, representing a yield of 6.1%.

The Belvoir business model is built on 24 years' experience of operating a central office team providing support and guidance to a network of entrepreneurial individuals with the drive and local knowledge to deliver success.

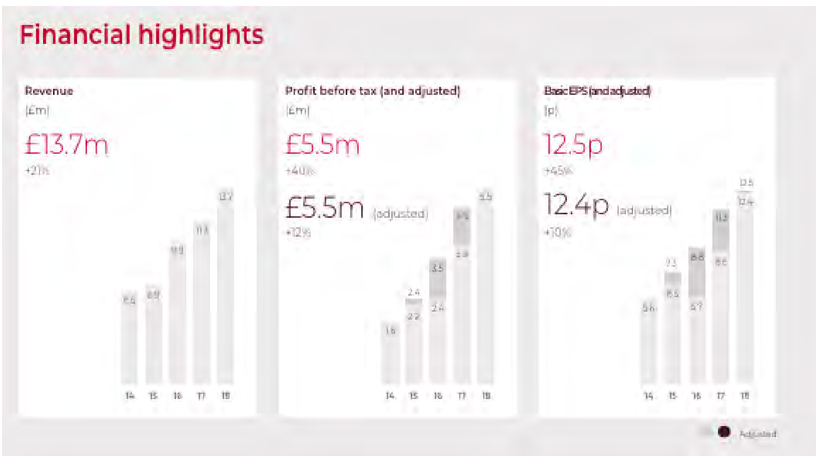
The strong lettings base, reflected in gross profit ratio of 66% lettings:15% sales:19% financial services, provides a recurring revenue stream, which coupled with an increasing contribution from property sales and financial services gives the group greater financial stability in a tough property market.

Despite a challenging sector backdrop, the group has seen continued growth outperforming the lettings, sales and financial services markets in which it operates, reporting a 12% increase in adjusted profit before tax to £5.5m in 2018 and marking 22 years' uninterrupted profit growth.

ACQUISITIVE GROWTH AND DIVERSIFICATION

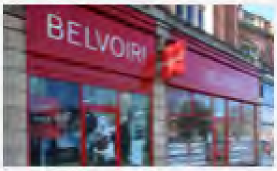
Since IPO, the group has utilised the AIM market as a platform for growth, leveraging its expertise

INTRODUCING BELVOIR
A PROPERTY FRANCHISE OPERATING 372 LETTING AND ESTATE AGENTS AND FINANCIAL SERVICES BUSINESSES



Network of 300 lettings and estate agency franchise offices

Network of 72 financial services businesses



Belvoir
Established in 1995
174 offices

Newton Fallowell
Acquired 2015
36 offices

Northwood
Acquired 2016
90 offices

Brook Glos
Acquired 2017

MAB
Acquired 2018

136 advisers

as a franchisor to extend its franchise base and deliver shareholder value. Originally a lettings-only, Belvoir-branded business, the group's acquisition strategy has seen it drive consolidation within the UK property sector at both the franchisor and franchisee level.

In 2015 the group embarked on its multi-brand strategy acquiring three smaller property franchise networks and taking its number of offices from 166 to 300.

Having scaled up, the group then looked to a broader strategy of bringing other property-related services onboard starting in 2017 with the acquisition of Brook Financial Services, comprising 29 financial advisers and a dedicated call centre, and followed in 2018 by the acquisition of MAB (Gloucester), a network of 87 financial advisers. These investments into financial services created an additional revenue stream for both the group and its franchisees.

Belvoir's assisted acquisitions programme enables the group's franchisees also to grow by acquisition. The group proactively identifies suitable lettings businesses for its property franchisees to bolt onto their existing business, and offers optional funding and support, providing the opportunity for accelerated and sustained growth to the mutual benefit of both the franchisee and the franchisor.

The programme saw 26 assisted acquisitions completed in 2018 adding £6.9m of additional revenue for franchisees and 4,400 of managed properties, and is on track to achieve a similar level in the current financial year.

These growth initiatives have transformed Belvoir into the multi-brand, multi-disciplinary group that it is today.

SIGNIFICANT MARKET OPPORTUNITY

In the face of continued economic uncertainty surrounding Brexit and a changing lettings landscape, the property market has remained relatively flat with the rental index to July 2019 at 1.3% and house price inflation to June 2019 reported as 0.9%, both historically low. However, these UK-wide statistics mask underlying regional trends, with Brexit having a disproportionate impact on the London property market.

The group benefits from its geographical diversification with c.95% of Belvoir's business operations being outside London. Against this background, Belvoir has seen growth in its Management Service Fees, its core revenue stream from franchisees, of 4% from lettings and 7% from property sales in the year to June 2019, outperforming both markets.

Belvoir has taken proactive measures to mitigate the impact of the Tenant Fee Ban, initially announced in 2016 and which came into force in June 2019, by increasing its onsite support visits to franchisees fourfold along with increased training and course attendance.

Guidance to overcome the fee ban includes support with new business plans and the creation of additional income streams by introducing new products and services such as mortgages, insurances and block management.

Greater emphasis on estate agency has seen lettings-biased networks, Belvoir and Northwood, increase revenue from estate agency by over 17% in the year to date.

Increased regulation such as the tenant fee ban and the introduction of client money protection is aimed at professionalising the sector, something that Belvoir welcomes. Recent changes are likely to drive further consolidation as smaller independent agents exit the sector providing further acquisition targets for the group's franchisees.

WHY FRANCHISING IS SO RESILIENT

Belvoir's franchise model continues to prove itself resilient to changes in the sector. Compared with independent agents, franchisees benefit from the economies of scale that a national brand providing group-wide support can bring; and compared with large corporate agents, Belvoir benefits from a much leaner, lower cost base, and the entrepreneurial spirit of its franchise owners. Belvoir's continual success over 24 years is a testament to how well suited franchising is to the property sector.

CREATING SHAREHOLDER VALUE

Belvoir has a proven track record in delivering continued growth underpinned by the belief that the generation of value for shareholders is founded in the creation of value for its franchisees and financial advisers.

The group's operational leverage and diversified business model has helped to consistently deliver profit growth, with adjusted profit before tax increasing three-fold since 2014 to £5.5m (2014: £1.8m) and adjusted earnings per share more than doubling to 12.4p (2014: 5.6p).

The group's capital allocation policy provides a reliable dividend with attractive yield for investors, whilst retaining funding for the group's growth strategy.

Creating Value: Financial Services

The broader value creation strategy of bringing other property-related services into the group started with financial services.

Brook Financial Services comprises a team of advisers and a dedicated call centre in Yorkshire. MAB (Gloucester) operates as a network of independent financial advisers, primarily based in the Midlands, South West and Wales and supported by a central office team; a very similar business model to the franchise network.

The group strategy is to extend the financial services network across the UK, enabling the financial adviser to offer the face-to-face interaction preferred by customers and expected to be more effective in the conversion of mortgage and related financial services leads. In the six months to June 2019, the financial services division has grown to 136 mortgage advisers and contributed 19% of group gross profit.

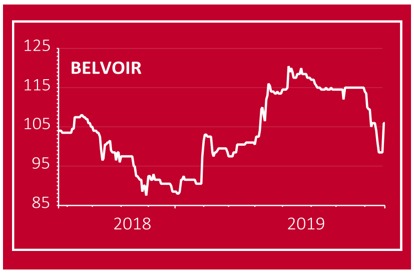
SOLID OUTLOOK

Belvoir aims to lead the way in property franchising by further extending its market share of the UK property sector through the model of operating multi-brand property franchise networks alongside other complementary property-related services.

The group is confident that the coming years will see further opportunities for growth in both size and reputation as the sector continues to consolidate and the business is well placed to take advantage of these opportunities in both the property and franchising industries.

WHY INVEST IN BELVOIR?

Belvoir has a proven track record in delivering growth, built around a business model of supporting networks of entrepreneurial business owners. This is underpinned by a strong bias towards lettings, providing a reliable recurring revenue stream, and sound business ethics.



Diurnal: building on success of first product launch

Website: www.diurnal.co.uk

Diurnal (DNL:AIM) believes that it can become one of the few UK biotechnology companies to successfully take multiple products from concept to commercialisation.

The group's primary focus remains on progressing its two lead products, Chronocort and Alkindi, which are potentially valuable treatment options with a combined opportunity in the US and Europe of over $400m for congenital adrenal hyperplasia (CAH) and paediatric adrenal insufficiency (AI), underserved orphan diseases resulting from cortisol (the 'stress hormone') deficiency.

ALKINDI EUROPE: STRONG MARKET UPTAKE DRIVING REVENUE GROWTH

Alkindi is the first product specifically designed for young children suffering from paediatric AI, and the related condition CAH. Alkindi is licensed in Europe and has been proven to be effective, and easy to administer.

Given the specialist prescribing base, and to retain the maximum commercial value of the product, Diurnal is commercialising Alkindi itself in larger European markets.

Diurnal launched Alkindi in the UK in September 2018, its second launch following introduction in Germany in May 2018.

During the last year, Diurnal has continued to make positive progress in both territories, notably with a positive Scottish Medicines Consortium pricing and reimbursement decision in October 2018 and agreement of the price in Germany in July 2019. Alkindi has shown strong revenue growth in its first full year of sales, with analysts projecting revenues of over £1m for the financial year ended 30 June 2019.

INTRODUCING DIURNAL

A UK BIOTECHNOLOGY FIRM WITH TWO FLAGSHIP PRODUCTS TREATING ORPHAN DISEASES

ALKINDI US: REGULATORY SUBMISSION PLANNED FOR 2019

Following the successful completion of a bioequivalence study in 2018, Diurnal has discussed its proposed New Drug Application (NDA) package with the US Food and Drug Administration (FDA), who confirmed the regulatory path for Alkindi in the US.

Diurnal plans to submit an NDA for Alkindi during Q4 2019, with potential for approval in late 2020. Diurnal intends to seek a licensing partner for its late-stage products in the US and, following the positive

FDA feedback, has initiated partnering discussions for Alkindi and Chronocort in the country.

CHRONOCORT: CLEAR REGULATORY PATH IN EUROPE AND US

Diurnal's second product candidate, Chronocort, provides a drug release profile that the Group believes better mimics the body's natural cortisol circadian rhythm, which current therapies are unable to replicate, and is designed to improve disease treatment for adults with CAH, as measured by androgen (male sex hormone) control.

In October 2018, the group announced headline results from its European pivotal Phase 3 clinical trial of Chronocort for the treatment of CAH in adults, the largest interventional study conducted to date in this patient population: whilst Chronocort had been able to demonstrate 24-hour control of androgens in the Phase 3 trial, it did not meet the primary endpoint of superior control compared to conventional glucocorticoid therapy.

Subsequently, Diurnal performed a detailed analysis of the study data, identifying important differences between Chronocort and the control arm of the trial. Diurnal has also analysed interim data from an ongoing safety extension study, where a number of patients have been treated for at least 30 months and show sustained benefit from prolonged Chronocort treatment.

Based on these findings, Diurnal held a Scientific Advice meeting with the European Medicines Agency (EMA) in Q2 2019, confirming the regulatory path for a marketing

authorisation application (MAA) for Chronocort, which Diurnal expects to file in Q4 2019.

In the US, Diurnal has designed a Phase 3 registration package for Chronocort, intended to recruit up to 150 patients with CAH randomised to either receive Chronocort twice-daily or standard-of-care. This study is expected to commence once the Group has identified a development and commercialisation partner for Chronocort in the US.

EARLY STAGE PIPELINE: TARGETING FURTHER UNMET NEEDS IN ENDOCRINE DISEASES

Diurnal aspires to be a significant participant in the endocrinology field with a pipeline of therapies targeting multiple endocrine disorders where patient and clinical needs are underserved. The Group's long-term plan is to expand into further endocrine disease areas, such as those associated with the thyroid, gonads and pituitary, representing multi-billion-dollar market opportunities.

POSITIVE OUTLOOK DRIVEN BY LATE-STAGE PIPELINE

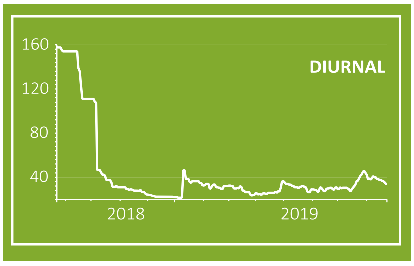
If approved by the EMA, Chronocort will join Alkindi to enlarge the group's commercial cortisol replacement therapy franchise.

This could enable Diurnal to build a strong and profitable European business through penetration of the combined addressable market for the treatment of CAH and paediatric AI, which is estimated to be worth over $300m in Europe alone.

The group also believes that its European commercial infrastructure is a valuable asset that makes Diurnal an attractive partner for companies seeking to commercialise endocrinology focused products in Europe.

Diurnal has received strong interest in Alkindi and Chronocort for the US and will continue to progress licensing discussions, including the potential for co-development of Chronocort in the US, both in CAH and AI, a market opportunity of more than $1bn.

The group is well positioned to build on the approval of its first product Alkindi, and to become a fast growing, independent, international specialty pharmaceutical company focusing on creating products that address unmet patient needs in endocrinology.



Open Orphan targeting rare diseases

Website: www.openorphan.com/home

Open Orphan (ORPH:AIM) was founded in 2017, with the goal of becoming Europe's leading rare disease and orphan drug focused pharma services company by a management team with extensive industry and financial expertise.

Open Orphan completed its IPO on the 28 June 2019 via reverse takeover of Venn Life Sciences and as such, today, Open Orphan is listed on both the London AIM stock exchange and the Dublin Euronext growth exchange.

BUSINESS MODEL

To grow the business, the company will target the fragmented orphan drug services market in Europe. Open Orphan plans to acquire and consolidate a small number of smaller, European, orphan drug services companies and deploying its digital data platforms to support companies in research & development and commercialisation.

Open Orphan has identified an extensive pipeline of target acquisitions primarily in the regulatory approval, reimbursement and product launch areas where the directors perceive that companies need the most help navigating the complex European market.

The Open Orphan strategy

INTRODUCING... OPEN ORPHAN

AN ORPHAN DRUG FOCUSED PHARMACEUTICAL SERVICES COMPANY


Cathal Friel

is to build upon its existing capability and expertise within orphan drugs to become a full-service consultancy company to the larger pharma companies providing consultancy services for their orphan drugs but also across the spectrum of many other pharmaceutical products.

Open Orphan is developing one of Europe's largest genomic databases of rare disease patients across Europe through its Health Data platform and it is collecting these patients health records in conjunction and in partnership with a number of the rare disease patient advocacy groups across Europe and also through its app directly with rare disease patients. Open Orphan is also developing its Virtual Rep and Data Access Platform consisting of physicians and key opinion leaders.

The Data Access Platform, containing the contact details of physicians and key opinion leaders in the rare disease space across Europe will enhance the existing commercialisation services with the business.

Within this platform is the Virtual Rep platform that builds upon Data Access by offering the identified pharma companies additional services and routes to communicating and accessing the physicians in Europe who prescribe their orphan drug products. This Virtual Rep will aim to enhance or even replace the role of the traditional sales representative.

The second platform, the Open Orphan Health Data platform, is developing a large genomic database and patient records for rare disease patients across Europe. The platform will collect data from individuals and charge pharmaceutical companies for the access to this data while the pharma companies work to find cures for these rare disease patients.

MARKET OPPORTUNITY

The end market for Open Orphan is the growing orphan/rare drug market and the need for consultancy services, particularly in Europe, to launch these products. The orphan drug sector is one of the fastest growing sectors in the global pharmaceutical industry and in the US in 2018 over 50% of all new US Food and Drug Administration approved drugs coming to market are for rare/orphan conditions.

In Europe, 57% of all new drugs are orphan designated and globally the orphan/rare drug market is growing at twice (11%) the pace of the global pharma market. Biotech companies and small pharma companies have been through a record level of fundraising in recent years but lack the internal resources to develop these products in-house. As such, demand for consulting services is high.

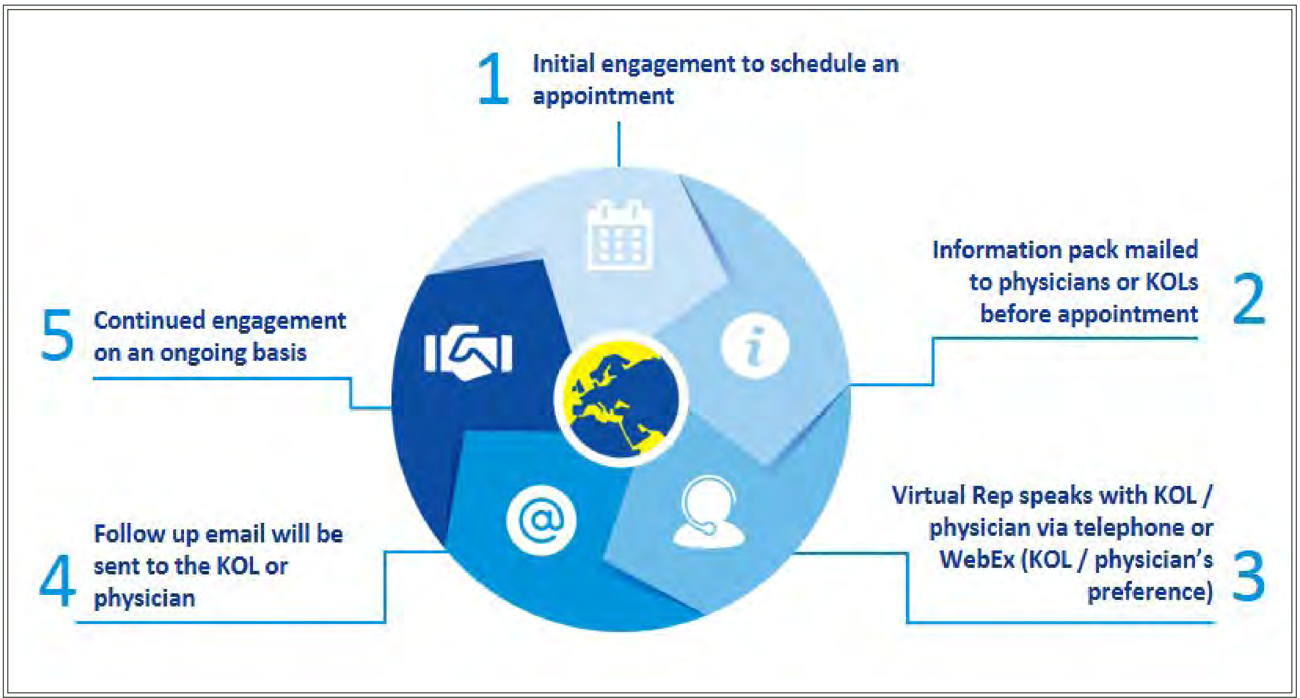
Regulatory approval and reimbursement process are complex in Europe given the number of different regulatory agencies within each country. There is a resulting gap in the market, in the US there are 520 orphan conditions with approved treatments versus 180 in the EU.

Open Orphan's build-up of niche speciality firms that know each market will aim to provide full scope of Europe. Finally, the increasing penetration of clinical research organisation in a growing global pharma market acts as a significant macro tailwind.

TRACK RECORD OF DELIVERY

The management team of Open Orphan has a track record of success. CEO, Cathal Friel, set up Open Orphan DAC a couple of years ago and since then more than €3 million has been invested into the company, over half of which was personally invested by Cathal Friel.

At the IPO which completed on the 28 June 2019, Open Orphan raised £4.5m in fresh



equity at 5.6p per share, the vast majority of which came from UK based institutional investors. As part of this process, Cathal Friel invested £300,000 at the full IPO price of 5.6p and agreed to a three year lock up of all of his shares including his IPO investment money as a clear demonstration of his commitment and belief in the plans he and the team has for Open Orphan.

Prior to founding Open Orphan, Cathal Friel was co-founder of **Amryt Pharma (AMYT:AIM)** which successfully completed its IPO on the AIM and Dublin stock exchanges in April 2016 and he remains one of Amryt's larger shareholders. Amryt Pharma is in the process of dual listing on NASDAQ as well as AIM in the coming months with a market cap in excess of $300m plus.

He was also the founder and chairman of Fastnet Oil & Gas which listed in 2012 and raised $50m in equity on the AIM market and co-founder and director of Merrion Stockbrokers in Dublin in 2000 which was successfully sold for €80m in 2006.

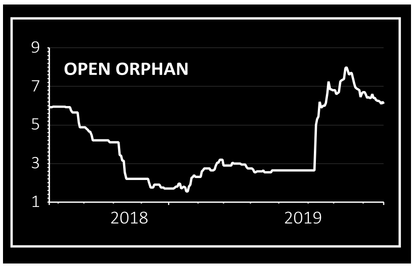
Open Orphan chairman, professor Brendan Buckley was chief medical officer of ICON plc until 2017, prior to which he co-founded Firecrest Clinical, a company which focused on improving the performance of clinical trial sites and in turn sold it to ICON in 2011. Brendan has extensive experience in the orphan drug market and will work closely with the management team

Maurice Treacy recently joined Open Orphan as a director having previously been a Venture Partner with Arch Venture Partners who are one of North Americas leading Life Science investment funds & in recent years he helped to co-found Genomics Medicine Ireland (GMI) in 2014 and which was which was recently acquired by WuXi Nextcode for a very large sum in November 2018 just a few months after GMI successfully raised $400 million in equity. Maurice was the inventor of >80 patents at Genetics Institute/Pfizer and secured US & EU regulatory and marketing approval of three biological products at Serono.

REASONS TO INVEST

The new management team has a track record of building successful business and Open Orphan has a clear four-pronged growth strategy. The market Open Orphan is targeting is one of the fastest growing in the drug sector with political support behind it and under-supply of treatments for orphan drugs.

Finally, Open Orphan hopes to generate shareholder returns with a dividend targeted within two years and a clearly defined exit strategy post scale up of the business.



OPG powering up in India

Website: www.opgpower.com

India's **OPG Power Ventures (OPG:AIM)** operates 414 MW of thermal power and 62 MW of solar power in the country.

Quoted on AIM since 2008, the company has a market capitalisation of approximately £60m at the current share price of around 15p per share.

OPG offers exposure to the fast-growing Indian power sector, with London levels of corporate governance and significant upside as the Company continues to grow shareholder value by paying down borrowings.

Operating risks are well managed and the reduction in coal prices creates a catalyst for profits growth, despite increased capital expenditure associated with India's emissions reductions targets.

THE INDIAN POWER OPPORTUNITY

India has achieved steady and robust macroeconomic growth in the past few years and continues to ascend the rankings of the world's economies. India's gross domestic product (GDP) is expected to reach $6tn by 2027.

India is forecast to be the third largest consumer economy in the world by 2025 with consumption predicted to triple to $4tn, reflecting accelerating shifts in consumer behaviour and expenditure patterns.

INTRODUCING... OPG POWER VENTURES
A DEVELOPER AND OPERATOR OF THERMAL AND SOLAR POWER GENERATION PLANTS IN INDIA

India's GDP grew by 6.8% in the company's March 2019 financial year and is forecast to double in the next decade, growing at an annual rate of 7%.

Rapid infrastructure development in key sectors such as power remains a priority for the newly elected Government of India. With electricity production of 1,249.3 billion units in FY19, India is the third largest producer and consumer of power in the world.

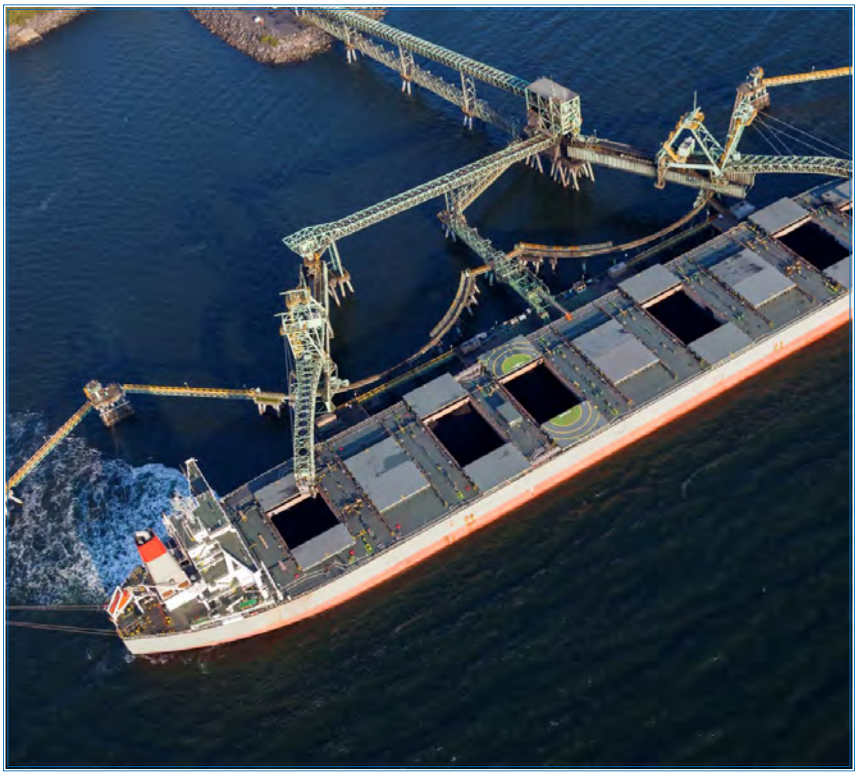
The Government's goal is to meet the anticipated growth in demand by doubling the current capacity to provide 24x7 electricity to all users. India is planning to derive 40% of its energy output from non-fossil fuel sources by 2030, which will mean raising the renewable energy installed capacity from 57 GW to 175 GW by 2022.

OPG'S DISTINCTIVE BUSINESS MODEL

Executive chairman Arvind Gupta was the pioneer of the Group Captive model in India and designed OPG's business strategy to capitalise on the partial deregulation of the Indian power industry by developing and then operating a portfolio of power plants in India to take advantage of continuing power deficits.

In 2005, the Ministry of Power in India set out rules to allow a developer to promote and set up Group Captive Power Plants (GCPPs). This enabled generators to sell to a set of industrial customers directly, instead of to the State Electricity Boards (SEBs). The rules included provisions that at least 26% of the voting equity capital of the power plant must be held by the captive users; that the tariff charged by the generator would be competitively determined with the captive users of the plant; and, that the SEB must provide access to the grid and only charge actual transmission charges, as approved by the regulator.

In India the price and reliability benefits for industrial customers can be significant. Under historic models, generation sales are normally made to the SEBs who then sell the power to customers. The SEBs, due to India's high power losses (from transmission and theft) of between 20 and 25%, charge customers considerably more



for deliverable generation than they pay the generators.

On top of this, industrial customers are effectively charged for the cross subsidies on the lower prices paid to the SEBs by farmers and residential customers.

OPG'S OPERATIONS

The company is the developer and operator of 414 MW of thermal power at its site in Chennai, which has been operating consistently at industry leading plant load factors. The company's second operation is situated north of Bengaluru, Karnataka and comprises a solar power project generating 62 MW of power.

OPG operates three (334 MW) out of the four units at the Chennai coal-fired power plant under the Group Captive model. The fourth unit (74MW) at Chennai operates under the Long Term Variable Tariff Agreement with Tamil Nadu Generation and Distribution Corporation (TANGEDCO) and is entitled to a fixed capacity charge.

In line with India's energy mix, OPG diversified into renewable power generation with the commissioning of the 62MW solar plants in Karnataka in the March 2018 financial year. However, given the long term returns from solar projects and the level of capital investment required, the company has announced its intention to focus on the core thermal power plants business and to dispose of the solar projects.

In order to manage the risks associated with the supply of Indian coal to its plants, OPG has sited its core project in Chennai close to ports and specified and fitted boilers that can burn a wide variety of Indian or imported coal (including cheaper, lower calorific value imported feedstock) without compromising output or load factors.

The company has secured a hedge against the volatility of coal price movements and has entered into a fixed price coal purchase agreement for some 60 per cent of annual coal requirements.

All of OPG's thermal plants are air-cooled by design – unlike many of its peer group's assets which are water cooled. This means that the company uses some 99% less water , conserving what in India can often be a scarce resource.

OPG'S RESULTS

OPG recently announced its final results for the year ending 31 March 2019, the first full year results based on the performance of the Chennai plant following the deconsolidation of the Gujarat SPV last year. The results showed a strong operational performance and robust profitability, in line with expectations, and demonstrated that focusing on the existing operations and deleveraging remains the right strategy.

In the year to March 2019, revenue was £140.6m (2018: £140.1 million) and adjusted EBITDA (earnings before interest, tax, depreciation and amortisation) was £35.3m (FY18: £24.7m). Average adjusted EBITDA for the last five years was £39.2m. Profit from continuing operations was £15m (2018: loss of £0.9m)

OPG paid a cash dividend in 2017, a scrip dividend in 2018 and is proposing a scrip dividend for FY19 of 0.6p per share, subject to approval by shareholders at the AGM in [November].

Total borrowings at 2019 were reduced by 14% to £80.4m. The company achieved a major milestone

with respect to Unit 1 of the Chennai plant (77 MW out of 414 MW) when its term loans were fully repaid in December 2018. All Chennai plants are expected to be debt free in calendar 2023.

Interest on term loans and principal repayments paid at Chennai in March 2019, amounted in aggregate to £29.6m, including £20.6m of principal repayments, representing 5.3p per share added in value to shareholders' equity. This trend will continue over the next three years.

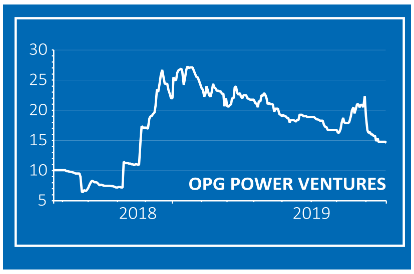
ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICIES

OPG believes in efficient, sustainable, responsible and inclusive growth. The company ensures that the health and safety of all employees and workers remain a top priority; environmental compliance and conserving resource remains an integral part of the organisational culture and OPG continues to proactively engage with communities near its operations.

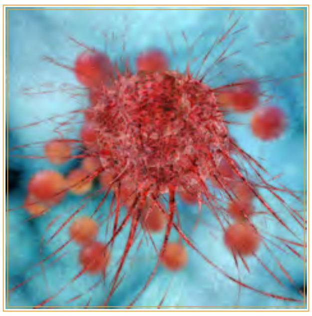
In order to comply with the new emissions standards applied to thermal power plants, OPG will procure and install best in class equipment over the next two years.

WHAT'S NEXT?

The company remains focused in the March 2020 financial year on delivering robust operational performance. This will allow OPG to continue to repay term loans and with the group paying up to 13% interest on its bank debt, the board believes that maintaining focus on operations and deleveraging will provide the best returns to shareholders.



Scancell at the frontier of cancer therapy



Website: www.scancell.co.uk

AIM-quoted **Scancell (AIM:SCLP)** is operating at the forefront of immuno-oncology, an exciting field of cancer research which involves the development of therapies, known as immunotherapies, which harness the body's ability to generate and sustain an effective immune response against cancer.

A key challenge in the fight against cancer is that many tumours successfully evade the body's own natural defences. Scancell's mission is to overcome this by developing products that stimulate the immune system to treat or prevent cancer.

Immunotherapy is now an established treatment option for cancer patients which has been largely driven by the approval of checkpoint inhibitors such as Opdivo (nivolumab), Yervoy (ipilimumab) and Keytruda (pembrolizumab), which can inhibit the ability of tumour cells to suppress an immune response.

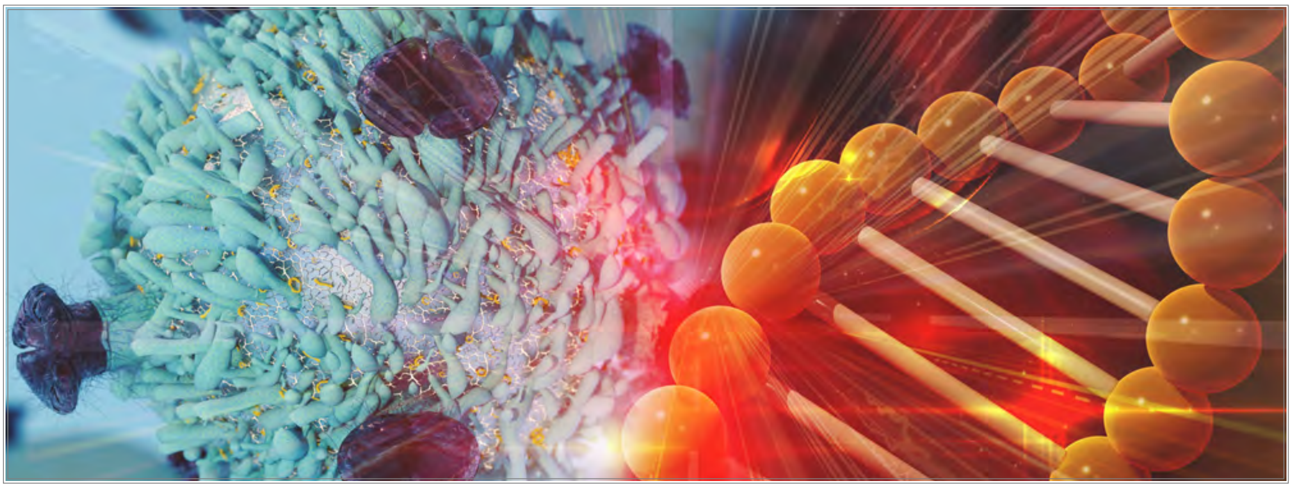
However, despite their success, these products have significant limitations and are only applicable to a minority of cancer patients. Scancell's goal is to develop new classes of competitive 'off the shelf' therapeutic cancer vaccines that are applicable to a broad range of patients with the aim to improve overall response and address the many unmet needs in the treatment of cancer.

INTRODUCING SCANCELL
A COMPANY OPERATING AT THE FOREFRONT OF IMMUNO-ONCOLOGY

MARKET OPPORTUNITY

The cancer immunotherapy market is one of the most rapidly growing markets within the biopharmaceutical industry, estimated to be worth $100bn by the year 2022 (ref: ResearchAndMarkets.com 30 November 2018).

Immunotherapies are being evaluated in most



cancer indications and their unrivalled efficacy and relative low toxicity profile compared to chemotherapy is already leading to paradigm shifts in the treatment for many cancers.

The commercial potential of Scancell's products will be defined by clinical data, especially in combination with other therapies such as the checkpoint inhibitors, in order to provide an increased and durable response in patients without compromising safety, whilst addressing the unmet needs in hard to treat cancers and without significantly increasing the overall cost of treatment.

Scancell has two immunotherapy technology platforms, ImmunoBody and Moditope that have shown the potential to address each of these criteria.

IMMUNOBODY AND MODITOPE: INNOVATIVE AND DIFFERENTIATED TECHNOLOGIES FOR CANCER THERAPY

IMMUNOBODY

ImmunoBody products are designed to stimulate the body's immune system to recognise specific cancer proteins on the tumour and then destroy it. ImmunoBody provides a versatile, adaptable platform that has the potential to allow the treatment of many tumour types. Scancell has currently developed two ImmunoBody cancer vaccines: SCIB1 and SCIB2.

The lead clinical programme from the ImmunoBody platform, SCIB1, has completed a Phase 1/2 clinical trial in patients with Stage III/IV metastatic melanoma. SCIB1 treatment appears to result in superior survival compared to historical rates, with the majority of patients in the trial with resected melanoma remaining alive for more than five years. SCIB1 was also shown to have a favourable safety profile with no dose-limiting toxicities and no serious adverse events.

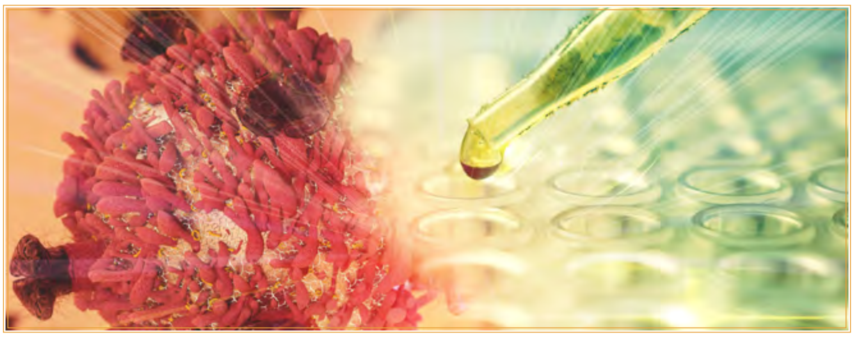
A Phase 2 trial of SCIB1 is now underway to determine an improved overall response to current standard of care therapy (Keytruda/ pembrolizumab) in patients with inoperable melanoma.

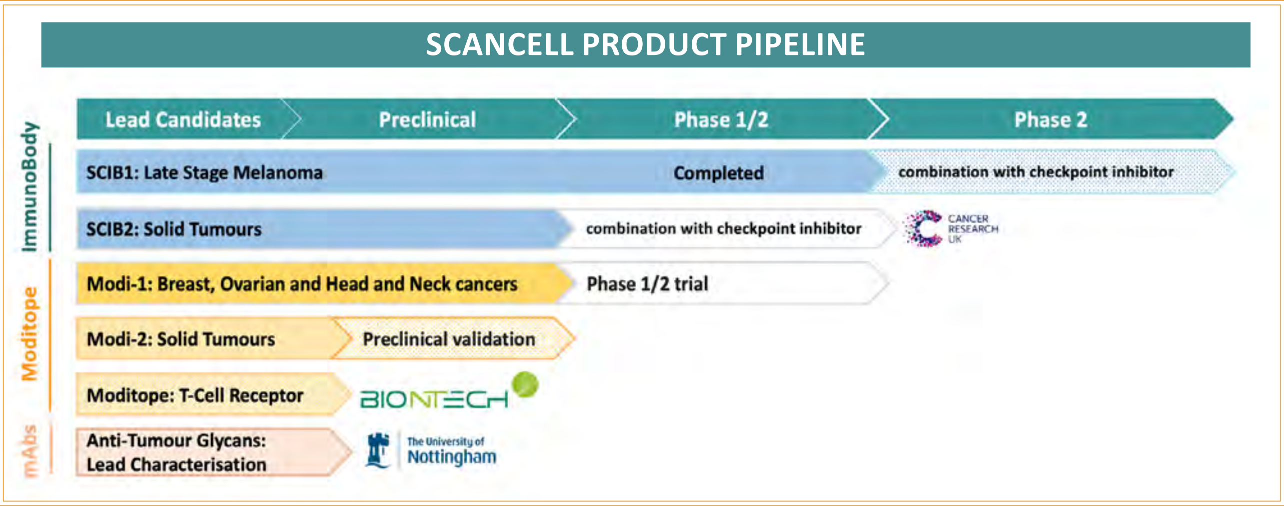
Scancell is developing SCIB2 in partnership with Cancer Research UK (CRUK) and a Phase 1/2 clinical trial is being planned.

MODITOPE

Scancell's Moditope immunotherapy platform is based on exploiting the normal immune response to stressed cells and harnessing this mechanism to destroy cancer. Metabolism within cancer cells differs to normal cells as the cancer cells grow quickly, hence they need a lot of energy and nutrients and become 'stressed'.

Some of the proteins within stressed cells are broken down to help the cell survive during which certain modifications occur resulting in modified peptide fragments ('moditopes'). If these modified peptides are presented on





the cell surface, normally the immune system would recognise them and target that cell for destruction.

However, one hallmark of cancer is its ability to evade immune detection.

Moditope is a technology platform that takes advantage of these unique stress induced modifications to stimulate an immune response.

After immunisation with a Moditope vaccine comprising several modified peptides, a unique immune response of a potent type of T cell are produced which travel around the body to the tumour site where they force the cancer cells to express the modified peptides on the cell surface, enabling the activated T-cells to destroy them.

Scancell's lead Moditope vaccine, Modi-1, is currently being manufactured in preparation for clinical evaluation in the treatment of solid tumours including triple negative breast cancer, ovarian cancer, and head and neck cancer, scheduled for the first half of 2020.

Scancell is also collaborating with BioNTech, Europe's largest private biotechnology company, to identify the T-cell receptors that recognise Moditopes and if successful to develop these further for adoptive cell therapy.

ANTI-GLYCAN ANTIBODIES

A third approach that Scancell is developing relates to monoclonal antibodies, a well validated modality in cancer therapy. Cells are adorned with sugar molecules known as glycans and the pattern of these glycans differ between tumour cells and healthy cells.

Glycans are involved in regulation of many physiological processes and inhibition of these leads to rapid cell death. Antibodies that target such tumour glycan signatures therefore provide an attractive strategy for immunotherapy.

This novel monoclonal antibody platform offers a new opportunity for collaboration and commercial transactions with antibody engineering companies looking for differentiated therapeutic targets.

OUTLOOK

The commercial value of Scancell's unique approaches will be realised though the licensing of its intellectual property to larger companies.

The terms of licensing transactions will be based on the relationship between potential market share, identified eligible patient populations, and clinical value.

Clinical data built on robust clinical trials will be key to answering these questions and enabling the assessment of market and product positioning for commercial transactions with biopharmaceutical companies who would further develop these products for market entry.

Scancell's ability to generate more clinical data has been aided by the recent £3.88m investment by Vulpes Life Sciences Fund a recognised healthcare investor with a long-term outlook.

The company remains focused on the continued development of its pipeline with initial clinical readouts from the planned clinical studies anticipated within the next 18 months.